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# Safeguards for REDD+ from a Donor Perspective

October 2013

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## Prelude: Context and Objective of the Paper

This paper was developed for a workshop held on September 10, 2013, to provide a conceptual framing for a discussion among donors about the application of safeguards for transactions providing financial support for REDD+ actions. It recognizes that the practice of implementing environmental and social standards, operational policies, and specifically REDD+ safeguards is an evolving field without common definitions and or common practice. This paper therefore seeks to provide an overview on the different safeguard approaches that bilateral donors currently apply, and some of the areas potentially worthy of further discussion.

## Definitions

Members of the global community use a variety of different terms to describe REDD+ actions and the process of reducing social and environmental risks associated with such actions. The variance in terminology sometimes makes conversation about these actions difficult. For the purpose of this paper, we use the following definitions for key terms:

### Cancun Safeguards

The set of principles referred to in Appendix I of UNFCCC Decision 1/CP.16 (See Table 2).

### Country System

A set of rules and institutions within a particular country, aimed at reaching a particular goal (e.g. reducing environmental risks associated with projects).

### REDD+

A global initiative comprising a series of activities that developing countries could take to reduce emissions and increase carbon stocks by slowing, halting, and reversing forest loss and degradation as well as the related global mechanism for recognizing and supporting them.

### Safeguards

A policy, procedure or process that accompanies an investment, project, program, policy or other activity and is designed to mitigate social and environmental risks.

### Safeguard systems

A cumulative set of safeguards adopted by an institution or government (e.g. World Bank Operational Policies).

### Social and Environmental Standard

A safeguard that denotes a defined and measurable level of performance to be met in order to show compliance to environmental or social criteria (e.g. performance standards).

### Principles

High-level normative codes of conduct, rules or goals.

## Section 1. Origins and development of Safeguards

The notion of including environmental safeguards in international law can be traced back to the 1972 Stockholm Conference on the Human Environment, which brought into focus the realization that the environment has limited assimilative and carrying capacity and that control measures should be instituted to safeguard the environment for quality of human life. The Stockholm Conference is often identified as the watershed moment for the rise of modern international environmental law. Principle 12 of the Stockholm Declaration also confirms that “[D]eveloping countries need money to develop environmental safeguards,” thereby making the concept of ‘safeguard’ synonymous with national rules, policies and standards.

Starting in the 1980s, multilateral institutions, in particular the World Bank, started adopting environmental, social, and legal safeguards to ensure that operations they financed would not result in environmental and social damage. The ‘do no harm’ principle remains to this day and many other multilateral and bilateral donors have integrated social and environmental assessments into their international development policies in order to avoid or mitigate potential environmental, social or cultural harm (see Table 1). In some instances, safeguards have grown from minimal criteria of ‘do no harm’ underlying much of environmental impact assessments, to proactive ‘do good’ planning tools to promote the long-term environmental and social co-benefits of particular investments.

**Table 1. Requirements of various Development Banks (DB)**

Requirements	Asian DB	African DB	European BRD	Inter-American DB	Int. Finance Corp.	World Bank
Environmental and / or Social Impact Assessments	Yes	Yes	Yes	Yes	Yes	Yes
Biodiversity / Habitats	Yes	Yes	Yes	Yes	Yes	Yes
Pollution Prevention	Yes	Yes	Yes	Yes	Yes	Yes
Climate mitigation	Yes	Yes	Yes	Yes	Yes	Yes
Indigenous People	Yes	Yes	Yes	Yes	Yes	Yes
Involuntary Resettlement	Yes	Yes	Yes	Yes	Yes	Yes
Health and Safety	Yes	Yes	Yes	No	Yes	No
Labor Rights	No	No	Yes	No	Yes	No
Cultural Heritage	Yes	Yes	Yes	Yes	Yes	Yes
Transparency Policy	Yes	Yes	Yes	Yes	Yes	Yes
Consultation Requirements	Yes	Yes	Yes	Yes	Yes	Yes
Grievance Procedure	Yes	Yes	Yes	Yes	Yes	Yes

\* Please note that the situation in each institution is more complex than it may appear in the table. For instance, the table merely lists available policies, it does not consider the strength of these policies or the degree to which they are implemented. It also does not include policies, strategies or guidelines that are not considered safeguards by the institution.

## 1.1 REDD+ and Safeguards

In 2010 in Cancun, Parties to the UN Framework Convention on Climate Change (UNFCCC) agreed to seven broad safeguard principles aimed at reducing risks associated with REDD+ (hereinafter the Cancun Safeguards). A year later in Durban, Parties agreed that those undertaking REDD+ activities “should provide a summary of information on how the [Cancun] safeguards are being addressed and respected” (Table 2).

**Table 2. Guidelines and Safeguards adopted at COP-16 and COP-17**

Cancun Safeguards	<p>Decision 1/CP.16, appendix I, para 2 states: <i>When undertaking [REDD+] activities, the following safeguards should be promoted and supported:</i></p> <ol style="list-style-type: none"> <li>1) <i>Actions complement or are consistent with the objectives of national forest programmes and relevant international conventions and agreements;</i></li> <li>2) <i>Transparent and effective national forest governance structures, taking into account national legislation and sovereignty;</i></li> <li>3) <i>Respect for the knowledge and rights of indigenous peoples and members of local communities, by taking into account relevant international obligations, national circumstances and laws, and noting that the United Nations General Assembly has adopted the United Nations Declaration on the Rights of Indigenous Peoples;</i></li> <li>4) <i>The full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities, [in REDD+ activities and national REDD+ plans and strategies];</i></li> <li>5) <i>That actions are consistent with the conservation of natural forests and biological diversity, ensuring that REDD+ activities are not used for the conversion of natural forests, but are instead used to incentivize the protection and conservation of natural forests and their ecosystem services, and to enhance other social and environmental benefits;</i></li> <li>6) <i>Actions to address the risks of reversals;</i></li> <li>7) <i>Actions to reduce displacement of emissions.</i></li> </ol>
Procedures/ Guidance	<p>In Decision 1/CP.16 Parties affirm “<i>that the implementation of the activities referred to in paragraph 70 below should be carried out in accordance with appendix I to this decision, and that the safeguards referred to in paragraph 2 of appendix I to this decision should be promoted and supported</i>”, and urge “<i>Parties, in particular developed country Parties, to support, through multilateral and bilateral channels, the development of national strategies or action plans, policies and measures and capacity-building, followed by the implementation of national policies and measures and national strategies or action plans that could involve further capacity-building, technology development and transfer and results-based demonstration activities, including consideration of the safeguards referred to in paragraph 2 of appendix I to this decision, taking into account the relevant provisions on finance including those relating to reporting on support;</i>”</p> <p>Decision 12/CP.17 states that parties undertaking REDD+ activities “<i>should provide a summary of information on how the safeguards in 1/CP.16 are being addressed and respected throughout the implementation of the activities.</i>”</p>

It is unclear how the Parties to the UNFCCC will implement the Cancun Safeguards. Decisions of the Conference of the Parties of the UNFCCC (COP) have provided little detail on how countries should implement and operationalize the broad safeguard principles. The decision from COP-16 states that the

safeguards should be “promoted and supported,” while that from COP-17 require parties to “provide information on how the safeguards are being addressed and respected,” and explicitly links *consistency* with the Cancun Safeguards to future finance under the UNFCCC. The Parties have not yet agreed though on what this link to future finance will be. The Parties to the UNFCCC are now considering whether to provide further guidance on reporting requirements. Some argue that additional guidance could streamline and clarify the reporting process, while others stress the need for flexibility to allow for national sovereignty in the implementation of the safeguards and information systems.

The responsibilities of developed countries also remain unclear. The only explicit reference to donor countries is found in the decision from COP-16, which implies that donors should consider the Cancun safeguards during the implementation of the first 2 phases of REDD+ (see Table 2), as a part of developing strategies, national frameworks, and piloting results. Developed countries could choose to consider and apply the Cancun Safeguards in a variety of ways. For example, developed countries may:

- a. Conduct a policy mapping exercise and find that their existing safeguard policies already cover the Cancun Safeguards;
- b. Develop specific guidance for REDD+ finance, or
- c. Decide that safeguards primarily concern developing countries, and therefore choose to consider safeguards only when supporting developing countries readiness for REDD+.

## 1.2 Substantive Areas Covered

Safeguards range in the number of substantive areas covered (indigenous peoples, biodiversity, forest sector, etc.) and the amount of direction provided on their implementation. There is debate within REDD+ stakeholders on the amount of detail needed to effectively address safeguards, with many Parties in the UNFCCC preferring less guidance (existing text in the COP decisions) and more flexibility to build on country systems, yet some NGOs pressing for more requirements. No donor country currently has standalone REDD+ or forestry safeguards outside of their existing policies, therefore countries will need to consider, among others, whether to develop separate guidance on REDD+ Safeguards, integrate REDD+ safeguards into existing policies, or alternately, support implementing countries in their application of the Cancun Safeguards. The safeguard topics and guidance currently given by donor countries are wide-ranging and include a variety of substantive issues, usually based on the type of activity or level of scope (country-level or project level).

Most donor countries consider the Cancun Safeguards as a minimum requirement for REDD+ and other forest programs. However, given the varying topics covered in the Cancun Safeguards, there are some inconsistencies with their consideration and application. While most of the principles in the Cancun Safeguards relate to traditional requirements for which many donors already have similar provisions (e.g., transparency, participation of stakeholders, and consideration of biodiversity or other environmental issues), several on the list are more difficult to map into many traditional donor policies, such as promoting effective national forest governance structures, or complementing national forest programs. And still others on the list, in particular addressing reversals and reducing displacement, may be considered by some as relating more to carbon accounting issues rather than traditional safeguard provisions, *per se*.

## Section 2. Bilateral Finance and Safeguards

No donor country has yet created standalone safeguards for REDD+ finance, however, many donor countries support the implementation of the principles embodied in the Cancun Safeguards through their existing social and environmental policies. This section provides an overview of some of the general safeguard approaches used by bilateral funders and highlights their links to REDD+ where appropriate.

### 2.1 Legislative Sources

Donors and public finance institutions have developed various instruments to avoid unintended negative consequences and increase the effectiveness of their aid transactions. Such approaches are based on different legal grounds. Most donors have ratified or endorsed international agreements with implications for how public finance is spent and delivered. Those obligations have been translated into various domestic legal instruments. In some cases, guidance on the use of public funds for foreign assistance can be included in annual budgetary laws or government coalition agreements (Germany, Norway, France). In other cases laws pertaining to international investments have been developed out of domestic requirements. In the United States, for example, Executive Order 12114 (1979) expanded the National Environmental Protection Act (NEPA) to apply to development assistance abroad. Australia's Environmental Protection and Biodiversity Conservation Act similarly requires Australian agencies to comply to the same environmental requirements abroad as they do in Australia. In other cases, legal requirements to address social and environmental impacts of foreign lending come from laws and policies directly related to development assistance. For example, the UK's Department for International Development's (DFID) is guided by the International Development Act of 2002, which commits the institution to meeting the Millennium Development Goals by 2015 and requires, among other things, that funding result in poverty alleviation and sustainable development.

Beyond these overarching legal requirements, implementing agencies tend to develop further guidance on how to implement the legislative requirements. Examples of such guidance include NORAD's Development Cooperation Manual and the Guideline for the Assessment and Consideration of Environmental and Climate Impacts by the German Ministry of Economic Cooperation (BMZ). In the United States, funding administered by USAID and the Millennium Challenge Cooperation (MCC) are both governed by Executive Order 12114. However, the two actors have taken different approaches to applying this executive order. USAID's environmental assessments are governed by Title 22 of the Code of Federal Regulations, Part 216, which is meant to extend relevant NEPA requirements to foreign aid.

### 2.2 Financing Instruments

Donor countries and multilateral institutions use a variety of financing instruments to disburse funding, including grants, loans, guarantees, direct budget support and results-based financing. Safeguards can vary depending on the type of financing involved. For example, support to projects will typically require different types of risk-mitigation activities than program or policy support. Grants provided prior to project implementation may require different types of risk-mitigation measure than results-based financing (see Table 3).

To date, much of REDD+ financing has gone toward Phase I "readiness" activities aimed at preparing developing countries for successful implementation of REDD+. Going forward, increasing amounts of finance will aim to reward developing countries for reductions in forest-related carbon emissions. This shift may require new strategies for dealing with social and environmental risk.



**Table 3. Financing Instruments**

Types of financing	Examples of Contractual Form
<b>Technical assistance grants</b>	Letters of agreement specifying grant purpose and conditions, as well as reporting requirements.
<b>Loans and guarantees</b>	Safeguards may formulate specific requirements relating to project planning, implementation or through procedural requirements (IEA, consultations, participatory approaches). Loan or Guarantee Agreements containing the general conditions of the loan, specific conditions precedents and contractual covenants.
<b>Budget support</b>	Budget support typically involves the assessment of country systems. Financing agreements are signed and funds are disbursed in fixed or variable payment tranches. Fixed payment tranches are usually linked to eligibility criteria, and variable payment tranches are measured against specific indicators.
<b>Results-based finance</b>	Inclusion of conditions to be adhered to while achieving objectives. Requirements often more procedural than substantive (consultation, transparency, accountability). Depending on the disbursement mechanism review of fiscal and operational management systems. Disbursement often through appraised financial intermediaries.

### 2.3 Safeguards in the Funding Cycle

Once the financial instrument is selected, safeguards can be applied at different stages of the funding cycle (Figure 1). The methods used to employ safeguards can be applied in various combinations and depend on multiple factors including the nature of the funding, activity, recipient country and funding agency.

**Figure 1. Safeguards in the Funding Cycle**

### 2.3.1 Eligibility and Prioritization

Most donor countries have defined some criteria to help them determine the countries and/or activities, which they will support. These criteria often include some form of safeguard requirements. The United States' MCC, for example, requires recipient countries to demonstrate a minimum level of good governance and commitment to policy reform before the country can receive funding. Countries wishing to receive funding from the US Tropical Forest Conservation Act, in turn, "must not violate internationally recognized human rights." Germany's REDD+ Early Mover (REM) program also requires recipient countries to comply with established criteria, including REDD+ safeguards, to be eligible for two types of funding: incentive payments to promote forest conservation and results-based payments on emissions reductions.

Partner countries with strong existing national systems are generally seen as favorable aid recipients as they tend to have a better chance of successfully and efficiently implementing programs. It should be noted however, that while this process provides for application of aid to places where it will be more effective, it does not necessarily allocate aid to places where it is most needed.<sup>1</sup>

### 2.3.2 Assessment and Appraisal

Once engaged in a country, funders commonly apply some form of safeguards to the specific activities, policies or projects in which they plan to invest. These safeguards often take the form of risk or impact assessments, the breadth and depth of which vary based on the type and scale of the investment in question. Examples of donor requirements related to social and environmental assessments include:

- DFID (UK) requires a Climate and Environment Assessment (CEA) for projects above a certain financial threshold.
- USAID (USA) requires assessments of potential impacts on the environment, sustainability and gender equity for projects funded by the organization.
- The Agence Française de Développement (AFD, France) requires environmental and social evaluations to determine the risks presented by an investment, and then further studies based on risk levels presented. Category A projects are subject to an environmental and social impact study, while category B projects require an environmental and social (E&S) impact notice, which is incorporated into the AFD's feasibility study.
- NORAD (Norway) requires recipients to provide an assessment to identify preliminary sustainability and risk factors. Potential factors assessed include policy/framework conditions (including corruption), socio-cultural and gender issues and environmental impacts and benefits.
- Every AusAID (Australia) mission strategy and project must undergo environmental screening. This is done primarily through its Environment Management System (EMS), which measures all types of impacts – positive, negative, direct and indirect, and is used to meet legal obligations under the Environmental Protection and Biodiversity Conservation Act.
- KfW (Germany) defines principles and procedures for the assessment of environmental, social and climate impacts (also called ESIA and climate change assessment) during the preparation and implementation of measures financed or co-financed by KfW.

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<sup>1</sup> African Development Bank Brief, December 2012. Is There a Case for Reforming the Country Policy and Institutional Assessment (CPIA) as an Aid Allocation Tool?

In addition to risk assessments, donors often require management plans for projects determined to present potentially high-impacts, in order to ensure that proper protections are in place to deal with identified risks. For example:

- AFD requires recipients to create a “plan de gestion environnementale et sociale” (PGES) for high risk projects. The PGES describes the measures for mitigating or avoiding the negative impacts of a project and their institutional arrangements for implementation. It is formalized before the funding decision is made by the AFD, and is included as an annex in the financing agreement. The PGES serves at the point of reference for environmental and social components during the execution of the project.
- After a preliminary screening, KfW categorizes projects based on the relevance of potentially negative impacts. Projects which are classified as category A projects are subject to a more in-depth appraisal and analysis through an independent impact study (detailed guidelines are available in the guideline) and are required to draw up an environmental and social management plan to mitigate risks.

Some donors also employ the use of appraisal missions and reports as part of the design and/or due diligence process. Such missions may result in agreement on particular conditions for project implementation.

### 2.3.3 Approval and Formulation of Agreements

The legal agreements between bilateral donors and recipient countries often include safeguard conditionalities. Ex-ante conditionality requires a country to meet certain conditions before receiving aid, and ex-post conditionality requires the country receiving aid to agree to conditions set by the donor or lender that they will carry out after they receive the aid. Donors also often have specific guidance for how an agreement and its approval are carried out, as well as the detail and level of conditionality relating to safeguards application, monitoring and evaluation and compliance. Generally, conditionality tailored to country circumstances, and broad principles rather than prescriptive policies seem to foster greater country ownership, cooperation and effectiveness.<sup>2</sup> Examples of donor conditionalities include:

- NORAD’s Agreement Manual requires a legal quality assurance process stipulating that the agreement entered into is in conformity with applicable standards of the Development Cooperation Manual and Norwegian regulations. These documents, in turn, have guidance on the consideration of social and environmental considerations and how they should be integrated. Examples of how this can play in practice are seen in the memoranda of understanding (MOU) that Norway has signed with various REDD+ countries. Norway’s MOU with Guyana includes requirements for a “continuous multi-stakeholder consultation process,” strengthening of a “transparent, rules-based, inclusive forest governance, accountability and enforcement system,” and respect for “the rights of indigenous peoples and other local forest communities.” According to the MOUs, the countries should not receive funding until these requirements are met.
- For Germany’s REM program, KfW requires in-country missions to determine if the minimum requirements are met, then an agreement for incentive payments or results-based payments is drafted with the negotiated stipulations. In its agreement with the State of Acre, Brazil underscores that payment is subject to the fulfillment of certain targets including emissions reductions, as well as the implementation of internationally accepted safeguard standards.

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<sup>2</sup> Stefan Koeberle, Peter Silarszky, Gero Verheyen (2005). Conditionality revisited: concepts, experiences, and lessons learned. The World Bank

### 2.3.4 Monitoring and Evaluation

Funders use a variety of methods to monitor the social and environmental effects of their investments. Some are closely involved in project supervision, while others take a more hands-off approach. Historically, monitoring and evaluation have not played a major role in the application of safeguards, with much of the effort front-loaded in the pre-approval phases. However, more effort is now being placed on monitoring and evaluation (M&E) systems, especially with the increased use of results-based funding instruments for REDD+. A more robust application of safeguards with particular emphasis on M&E has been one of the main recommendations from donor countries to the Forest Carbon Partnership Facility (FCPF) of the World Bank. Some examples of donor monitoring and evaluation procedures include:

- AFD requires recipients to report on how they are adhering to environmental and social conditions of the contract. The frequency of reporting varies based on the risks that the project presents. For category A projects, a separate environmental and social ex-post evaluation is conducted and included as an annex in the global ex-post evaluation of the project. For B projects, the ex-post environmental and social evaluation is part of the global ex-post evaluation.
- The NORAD Agreement Manual requires that agreements and contracts with Norwegian public funds include monitoring mechanisms. Recipients are responsible for monitoring risks, including those related to social and environmental harm, and are encouraged to leverage their existing monitoring systems. The Norwegian staff uses audit reports to ensure that the recipient's monitoring and reporting was adequate. Staff may engage in field visits to ensure procedures are implemented and results achieved.

### 2.3.5 Compliance/Response

Funders can respond to a failure to implement safeguard protections in a variety of ways. One option is to withhold, reduce, cancel or demand repayment of funds. For example:

- NORAD's Agreement Manual states that sanctions for breach of an agreement can include: withholding or reducing disbursements, demanding repayment of funds, cancellation of the agreement or of funds in general to the country program, and compensation for loss suffered. This same document lays out guidance on whether and how to pursue dispute resolution related to different types of agreements.
- The US's MCC has a "Policy on Suspension and Termination" of its funding. Suspension can occur if a country has engaged in a pattern of actions inconsistent with the eligibility criteria or failed to adhere to criteria under its compact. For example, in 2012 the MCC terminated its compact with Mali following the "undemocratic change of government in the country." In 2011, it suspended its compact with Malawi "due to a pattern of actions by the Government that was inconsistent with the democratic governance criteria." The Malawian compact was restated in 2012 after the country demonstrated "efforts to improve the human rights environment."

Funders are typically reluctant to withdraw funding from recipient countries, however, particularly once the financing has been committed and disbursed. As a result, they often look for other methods to respond to breaches of relevant safeguard standards. This can include negotiations, mediation or even the provision of additional funding to help deal with unforeseen challenges.

## Section 3. Cross-cutting Considerations in REDD+

Given that REDD+ finance is still in an early phase, there are limited examples and lessons related to the application of bilateral safeguards to REDD+ activities—particularly those which are a departure from traditional forest sector funding. Even so, a number of areas have emerged that are worthy of further consideration. This section touches on a couple of these areas.

### 3.1 Harmonization

In addition to donor country policies and or/requirements to support the Cancun Safeguards, REDD+ countries seeking REDD+ and forest carbon financing from multilateral and third party sources have to consider or abide by additional conditions, criteria and obligations established by the financing institution or agreement. Some examples include the Forest Carbon Partnership Facility's package of rules governing social and environmental protections, UN-REDD safeguards guidance documents, REDD+ Social and Environmental Standards (SES), multilateral and bilateral development agency safeguard operating policies, and private certification standards (standard of the Climate, Community and Biodiversity Alliance (CCBA), Gold Standard, among others).

The proliferation of multilateral, bilateral and voluntary safeguards for REDD+ leads to an increasing conflation of requirements and risks causing confusion and unnecessary costs for those implementing REDD+. Institutions in developing countries responsible for implementing and overseeing safeguard implementation are often underfunded, and the additional capacity, transaction costs and bureaucracy in applying various safeguards represents an additional burden. Some efforts are underway to coordinate safeguard requirements for REDD+, including the FCPF's "Common Approach to Environmental and Social Safeguards for Multiple Delivery Partners." However, harmonization among national institutions, bilateral donors and multilateral organizations is still limited due to context-dependent institutional goals and procedures. The donor community therefore continues to face the challenge of developing safeguard approaches that simultaneously avoid additional bureaucracy and disbursement delays, comply with domestic foreign assistance requirements, and support effective REDD+ activities.

### 3.2 Use of Country Systems

Funders and funding instruments vary in the degree to which they rely on the recipient country's own system to avoid harm associated with the funding they provide. Funders can either require the recipient country to implement environmental and social protections according to the funder's specific criteria or procedures, or they can leave the details of implementation to the recipient government.

The international community increasingly emphasizes the value of country ownership in development efforts,<sup>3</sup> but also the importance of protecting vulnerable people and ecosystems from harm. Funders therefore struggle to balance these interests in their safeguard policies. Table 4 gives an example from the World Bank, which has tried various techniques for balancing use of its own systems and those of its clients.

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<sup>3</sup> For example, COP decisions and parties of the UNFCCC implementing REDD+ stress the use of country-led approaches and the consideration of country circumstances (CP.16, CP.17, CP.18)

**Table 4: Use of Country Systems and Degree of Guidance in World Bank Safeguard Approaches**

	Traditional Safeguards	Use of Borrower Systems	Program for Results (PforR)	Dev't Policy Lending (DPL)
<b>Applies to what type of funding?</b>	Loans for projects	Loans for projects	Loans for programs	Loans as a reward for policy changes
<b>Degree of reliance on country system</b>	<b>Least:</b> Borrower government responsible for implementing safeguards according to the Bank's system	<b>Middle:</b> Bank assesses country's safeguard systems and decides whether they are strong enough to rely; uses traditional safeguards otherwise	<b>More:</b> Bank assesses country's safeguard systems and can propose gap filling measures; no use of traditional safeguards	<b>Most:</b> Bank does cursory assessment of country's systems and can change triggers of the loan if that is deemed appropriate
<b>Degree of detail of requirements</b>	<b>Most:</b> Relatively significant degree of detail on process and substance in different policies based on substantive area (e.g. forests, indigenous ppl)	<b>More:</b> A table presents the substantive requirements that national systems must meet (instead of substance-specific policies)	<b>Middle:</b> No detailed policy requirements, only high-level principles	<b>Least:</b> Virtually no specific substantive or procedural requirements

Some examples of donor country policies highlighting the application of country systems include:

- Australia's Environmental Management Guide, for example, recognizes that recipient countries have environmental safeguards in place and suggests that AusAID policies are not intended to replace such safeguards. That said, the Guide also makes clear that Australia has minimum requirements and legal due diligence obligations particularly where a country system falls short of the minimum standard.
- The US's MCC, in turn, has published "Guidelines for the Use of Country Systems in the Implementation of Millennium Challenge Compacts." The Guidelines provide a process for MCC to assess the feasibility and appropriateness of using host country systems in the areas of public financial management, procurement, environmental and social assessment, and monitoring and evaluation. It recognizes that doing so "can provide a further opportunity to reinforce country ownership and to build capacity, thereby increasing the sustainability of MCC interventions."
- For German development aid, legal provisions of the partner country present the fundamental benchmark for impact assessments. However, the assessments are also guided by standards issued by the German Government or other international standards, such as the IFC Performance Standards, and the Environmental, Health and Safety Guidelines of the World Bank Group.

### 3.3 Degree of Stakeholder Involvement

The level of participation and stakeholder involvement in the implementation of safeguards varies by donor and program. For example, some involve civil society at a very high level of decision-making and

fund disbursement, while others may only bring in stakeholders once a project has been decided upon. For example:

- The MCC “Guidelines for Accountable Entities and Implementation Structures” requires inclusion of civil society in the decision-making process. Ongoing consultation with civil society is also required throughout the implementation of the program. Most MCC countries have established a Stakeholders Committee to give feedback and provide oversight for the implementation process.
- In the Norwegian guidance notes that the grant recipient should engage with project-affected in a manner commensurate with the risks to and impacts of the affected groups and communities.

Increasing stakeholder engagement, like increasing the use of country systems, has been advocated by a number of different institutions and organizations, such as the IEG and others that have observed the power of implementing the safeguards on the ground. Additionally, stakeholder engagement at all levels is promoted by the Cancun Safeguards as well as all the other REDD+ safeguard standards. Going forward, donors will need to decide on the degree to which they wish to engage with different stakeholders in relation to REDD+, and the shape that such engagement should take.

### **3.4 Application of Safeguards in Different Phases of REDD+**

To date, much of the conversation around REDD+ and safeguards has taken place as part of the ‘readiness’ phase for REDD+ (Phase I), which is aimed at helping developing countries prepare to receive funding in exchange for reducing forest degradation and deforestation. In the readiness phase, most of the safeguards applied are in the front-end of the funding cycle (eligibility, assessment and approval) and tend to focus on building capacity to implement safeguards (e.g., conducting consultations, developing safeguard information systems and building grievance mechanisms). In Phase II and III, more effort will likely be placed in the back-end of the funding cycle (monitoring, evaluation and compliance).

However, questions still remain on the relationship between results-based payments for REDD+ and the Cancun Safeguards. Governments currently hold different views on what role the safeguards will play in relation to certification of emission reductions.

## Section 4. Conclusions

Based on research and discussions among donor countries, some of the main issues on applying the Cancun Safeguards moving forward include:

There is still a lack of clarity on the application of Cancun Safeguards, including terms, guidance, policies, and interpretations. Donors must determine what responsibilities they have in relation to the risks associated with REDD+, whether their existing systems adequately deal with those risks and, if not, what actions they should take to augment their policies. While the Cancun Safeguards suggest implementation through a country-led approach rather than a prescriptive set of provisions, the REDD+ community may need further understanding on how to apply such safeguards both as donors and recipients. In addition, donors may consider enhanced coordination on REDD+ country requirements to improve safeguard effectiveness and reduce transaction costs and administrative burdens for implementing countries.

Successful safeguards enhance client capacity, responsibility, ownership and include systems and instruments for accountability and grievance redress. It may be helpful to consider the experiences within multilateral funding institutions, which have conducted studies and evaluations of relevant safeguard issues. An Asian Development Bank (ADB) study<sup>4</sup> for example, recommended the revision of their *Environment Policy* to “(i) refocus efforts from front-end loan processing and approval to results delivery, (ii) better integrate and align country systems and procedures with the policy for environmental assessment, (iii) broaden the focus of policy application from the project to capacity building, and (iv) better integrate environmental and social safeguards for a stronger focus on sustainable development.”. In many ways these recommendations represent the evolution of safeguard discussions occurring in many spaces, including around REDD+.<sup>5</sup>

A different set of safeguard tools may be required for readiness funding versus payment-for-results. While many donors have practices consistent with the Cancun Safeguards that apply to readiness type funding, how donors or buyers of verified emissions reduction or removals apply the Cancun Safeguards is open to different interpretations and subject to donor or buyer specific views. So far, there has been a variety of safeguard policies applied in a range of bilateral arrangements/transactions to purchase emission reductions, in addition to yet further differences emerging in the development of safeguards by multilateral organizations. In particular, there are a range of views on verification of safeguard compliance. Monitoring and measuring adherence to safeguards and applying compliance provisions are challenging tasks, and will be particularly important considerations in the transition to results-based finance.

Specific approaches may be used to create positive incentives, i.e. encourage a “race to the top” for REDD+ financing. Donor countries are seeking to incentivize positive behavior through the application of eligibility criteria to promote higher standards, and results-based payments to reward early movers. Funding programs with an open competition for funding appear to provide a higher level of incentives. That said, care should be taken in ensuring a balance between financing high and low-capacity countries.

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<sup>4</sup> Asian Development Bank, Safeguard Policy Statement, June 2009, p.6.

<sup>5</sup> See for example UNREDD and WRI's guidance on developing national safeguard systems for REDD+.





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