

THEMATIC NOTE

The Use of Country Systems in Managing Environmental and Social Impacts in Projects Financed by NDB

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Executive Summary

Environmental and social (E&S) sustainability is a must for all projects financed by the NDB. NDB Environment and Social Framework (ESF) and NDB Environment and Social Standards (ESS) are applied to all projects financed by NDB to ensure that projects adequately assess and mitigate their E&S impacts and risks. Unlike traditional multilateral development banks, NDB promotes the use of strong country systems for achieving projects' compliance with NDB ESF/ESS. This approach fosters local ownership of project outcomes, reduces implementation delays and transaction costs, enhances clients' capacity, and strengthens the member country's institutions and systems.

When project's application of country systems is not sufficient to effectively address project E&S risks and impacts, NDB adopts a "Country Systems PLUS" approach. This approach combines country and corporate procedures and requirements with additional project-specific actions needed to ensure effective E&S risk mitigation in compliance with the NDB ESF/ESS. NDB develops these additional actions in consultation with its clients and consolidates them into the Environmental and Social Impact Management Plan (ESIMP), which becomes an integral part of project implementation.

This approach allows NDB and its clients to successfully manage E&S risks and comply with country systems and NDB ESF/ESS while optimising efforts and resources for E&S risk management. NDB engages with other lenders and encourages the use of country systems, shares its own experience in applying those systems, and supports the harmonisation of safeguard approaches using a common methodology for project appraisal and implementation built on robust country systems.

I. INTRODUCTION

The New Development Bank's Environment and Social Framework (NDB ESF) is a policy that NDB applies to all its financed projects to govern project environmental and social (E&S) management. The NDB ESF consists of two parts: Part 1. Environment and Social Policy (ESP), which provides the overarching policy approach and requirements; and Part 2. Environment and Social Standards (ESSs), which includes three standards setting forth key mandatory requirements for Environmental and Social Assessment (ESS 1), Involuntary Resettlement (ESS 2), and Indigenous Peoples (ESS 3). The ESF and practices are generally aligned with E&S safeguards of other multilateral development banks. This alignment ensures that NDB projects meet global sustainability objectives while being adaptable to the specific needs and systems of member countries.

Country systems refer to the host country's national, subnational, or sectoral implementing institutions, as well as its applicable laws, regulations, rules, and procedures which are applicable to development projects. A

unique feature of NDB E&S approach is that NDB allows the use of country systems for compliance with NDB ESF/ESS.

Specifically, when certain E&S impacts are triggered by a project, NDB analyses risk assessment and mitigation instruments developed by the project for compliance with local country systems requirements (such as plans, studies, assessments, licenses, permits, and other local regulatory conditions). If such risk assessment and mitigation instruments are sufficient for adequately complying with NDB ESF/ESS requirements, NDB refrains from any additional requirements for the project. When available country system instruments are not sufficient, or when compliance with the country systems is not yet achieved by the project, NDB prepares additional actions, in consultation with its clients, as part of the Environmental and Social Impact Management Plan (ESIMP), thereby adopting a “Country Systems PLUS” approach to the project. This paper explains the advantages of this policy approach and demonstrates its implementation practices.

II. ADVANTAGES

The use of country systems approach fosters local ownership of project outcomes, reduces implementation delays and transaction costs, enhances clients’ capacity, and strengthens the member country’s institutions and systems. By leveraging host country regulatory requirements such as environmental impact assessments, resettlement plans, indigenous peoples plans, projects comply with local regulatory requirements and support sustainable development, while the NDB addresses any remaining risks and gaps to meet its policy requirements and standards.

NDB uses its role as an MDB to engage with relevant stakeholders across member countries, including regulators, policymakers, academics, industry associations, and civil society, to carry out capacity-building initiatives that help strengthen country systems.

III. IMPLEMENTATION PRACTICES

Notably, although NDB aims to use country systems in project E&S management, this does not imply that merely meeting host country requirements will satisfy NDB ESF/ESS requirements. Country systems are considered a tool to achieve NDB policy compliance. NDB reviews country system instruments developed by clients and assesses whether these instruments adequately address the specific E&S risks and impacts of the projects in line with NDB ESF/ESS. Where gaps are identified between the instruments and NDB ESF/ESS requirements, NDB engages with clients to take appropriate actions to close the gaps. In practice, the gaps may result from clients’ limited capacity to identify and adequately implement country systems, or from discrepancies between country systems and NDB ESF/ESS requirements.

1. Two levels of assessment

To ensure alignment of country systems with the NDB ESF/ESS in projects, NDB conducts two levels of assessments:

- i. Country level. NDB recognises that E&S country systems are complex and evolving, and therefore conducts periodic country system reviews for each member country to assess its E&S laws, regulations, procedures, and institutional capacity, as well as their alignment with NDB ESF/ESS requirements. This practice enables NDB to strengthen its internal capacity and provide more effective support to clients in achieving compliance with country systems. Findings from these studies are shared with member

countries and clients through knowledge-sharing and capacity-building activities, thereby enhancing their ability to comply with country systems. The country-level assessment allows NDB to understand the level of alignment between country systems alignment with the various provisions of NDB ESF/ESS, and potential gaps.

- ii. Project level. On a project level, during project preparation, NDB assesses project compliance with E&S country systems to identify gaps in relation to NDB ESF/ESS requirements. Such evidence-based assessments usually include review of project impact studies and management instruments, environmental and social plans, permits and licenses from local authorities, and monitoring and reporting to local regulators.

2. NDB's approach to addressing gaps in projects

Based on the assessments, if the application of host country's systems for a specific project is sufficient to address project specific E&S impacts and risks, then minimal additional actions are needed for the project to satisfy the NDB ESF/ESS. When project's application of country systems falls short in addressing project E&S risks and impacts, or when a project has gaps in its compliance with relevant country systems, NDB adopts a "Country Systems PLUS" approach. This approach combines country and corporate instruments for E&S management with additional project-specific actions needed to ensure effective E&S risk mitigation in compliance with the NDB ESF/ESS.

These additional project-specific actions are developed by NDB based on the findings of E&S due diligence and are consolidated into an ESIMP. The ESIMP outlines the material measures and actions that clients will carry out, including timeframes, institutional arrangements, deliverables, and measures of progress or success. The ESIMP is prepared in consultation with the clients and is a legally binding part of the loan documentation. The ESIMP serves as evidence of project's compliance with the NDB ESF/ESS and as a basis for monitoring each project's E&S performance during implementation. It is also a dynamic document that may be amended as additional actions are identified during NDB project implementation reviews, and those actions must be carried out to satisfy NDB ESF/ESS requirements.

If a country system changes during project implementation, NDB assesses any material changes that may adversely affect the project. NDB then discusses such changes with the client and proposes additional actions to address gaps arising from the revised regulations, to maintain full compliance with NDB ESF/ESS requirements.

In addition to the ESIMP, NDB carries out capacity building and knowledge sharing activities throughout project preparation and implementation to strengthen clients' abilities to comply with both country systems and the NDB ESF/ESS.

IV. COLLABORATION WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

NDB collaborates with other multilateral development banks and international financial institutions (IFIs). Through this collaboration, NDB encourages other IFIs to use country systems in international development efforts and shares its knowledge and experience in applying its “Country System PLUS” approach. NDB also supports harmonizing safeguard approaches with partner financial institutions by building on robust country systems and adopting a common methodology for project appraisal and implementation.

USEFUL RESOURCES BY NDB

Please refer to the NDB website for more useful resources on the NDB’s use of country systems for E&S risk management: <https://www.ndb.int/projects/environment-and-social-sustainability/>



About BRICS-NDB Knowledge Portal

The BRICS-NDB Knowledge Portal is a joint initiative of BRICS and NDB. The Portal aims to institutionalise the existing knowledge available across BRICS Working Groups by systematically compiling them in alignment with NDB priority areas and sharing good practices from NDB's operations.

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