Update of IFC's Policy and Performance Standards on Environmental and Social Sustainability, and Access to Information Policy

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UPDATE OF IFC'S POLICY AND PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY, AND ACCESS TO INFORMATION POLICY

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ACRONYMS

AIP	Access to Information Policy
AMR	Annual Monitoring Report
BCS	Broad Community Support
CAO	Compliance Advisor Ombudsman
CES	IFC's Environment, Social and Governance Department
CODE	Committee on Development Effectiveness
CSOs	Civil Society Organizations
DFIs	Development Finance Institutions
EBRD	European Bank for Reconstruction and Development
EDFIs	European Development Finance Institutions
EPFIs	Equator Principles Financial Institutions
ESAP	Environmental and Social Action Plan
ESG	Environmental, Social, and Governance
ESMS	Environmental and Social Management System
FIs	Financial Intermediaries
FY	Fiscal Year
FPIC	Free, Prior, and Informed Consent
GHG	Greenhouse Gas
IEG	Independent Evaluation Group
OECD	Organisation for Economic Co-operation and Development
UN	United Nations

Update of IFC's Policy and Performance Standards on Environmental and Social Sustainability, and Access to Information Policy

EXECUTIVE SUMMARY

1. IFC's Policy and Performance Standards on Social and Environmental Sustainability, and Policy on Disclosure of Information (collectively the Sustainability Framework) became effective on April 30, 2006. In approving the 2006 Sustainability Framework, IFC's Board requested management to assess the effectiveness of the Sustainability Framework and report back on its implementation experience. In July 2009 IFC presented the report *"IFC's Policy and Performance Standards on Social and Environmental Sustainability, and Policy on Disclosure of Information: Report on the First Three Years of Application"* to the Board's Committee on Development Effectiveness (CODE). Based on the findings of this report, which also reflected IFC's changing product offering, a changing global environment, and IFC's implementation experience, the Board agreed with the proposal to initiate a review and update process of the 2006 Sustainability Framework on July 29, 2009. CODE was briefed on progress with updates on May 5, 2010 and December 15, 2010, and authorized subsequent rounds of public consultation.

2. The Sustainability Framework articulates IFC's strategic commitment to sustainable development and is an integral part of its approach to risk management. It provides guidance on how to identify risks and deal with them, and is designed to help clients avoid and mitigate adverse impacts and manage risk as a way of doing business in a sustainable way. A management systems approach to risk provides IFC with the discipline and flexibility to work across all sectors and across a diversifying product mix. This approach is designed to be consistent with the way private businesses manage other operational risks. Clients continue to indicate that IFC's environmental and social expertise is an important factor in their decision to work with IFC. In the short time since the Sustainability Framework became effective, the Performance Standards have become globally recognized. They are now considered to be a leading benchmark for environmental and social risk management for private sector investors, and are often essential pre-requisites for companies to raise funds, particularly from international markets. The Equator Principles, a voluntary set of standards developed by private sector banks based on IFC's Performance Standards, are evidence of this global recognition.

3. IFC's proposed Access to Information Policy (AIP) represents a major shift from the 2006 Policy on Disclosure of Information and aligns IFC with the principles in the World Bank's Access to Information Policy. This new policy addresses effective risk management and good corporate governance in laying out an approach to transparency. Increased and ongoing project level disclosure by IFC in the proposed AIP complements the client's stakeholder engagement requirements in the Performance Standards.

REVIEW AND UPDATE PROCESS

4. In the five years since the launch of IFC's Sustainability Framework there has been continued evolution in practice around business' role and risks that should be addressed at the company level. IFC has learned valuable lessons from its implementation experience and from that of others, including clients. IFC has also benefited from reviews undertaken by the

Compliance Advisor Ombudsman and the World Bank Group's Independent Evaluation Group. Extensive comments have been received through the public consultation process. In addition, the reviews by CODE, and numerous meetings and discussions with Executive Directors and their Advisors have contributed significantly to the process.

ACCESS TO INFORMATION

5. The 2006 Disclosure of Information Policy has been renamed as the Access to Information Policy, and has been updated to align IFC with the World Bank in strengthening its commitment to transparency. IFC's current disclosure regime requires information to be disclosed to the Board and to the public one time in the IFC life of a project, just prior to Board consideration. The proposed AIP will introduce a new regime of information disclosure throughout the IFC project cycle. This shift will result in IFC disclosing more project-level information, including on environmental, social, and development outcomes during all stages of the project.

6. The new environmental, social, and development impact disclosure requirements will also apply to investments made through Financial Intermediaries (FIs) and to Advisory Services. The AIP will improve IFC's ability to communicate both how it manages risk and its development impact in the long term. This is expected to translate into improved performance and outcomes. The updated Sustainability Policy requires contract disclosure for extractive industry projects in addition to the existing requirement of revenue transparency.

THEMATIC AND OPERATIONAL ISSUES

CLIMATE CHANGE

7. The updated Sustainability Policy recognizes the development challenges posed by global climate change, and aligns the Policy with the World Bank Group's Strategic Framework for Development and Climate Change. The Performance Standards represent one element in IFC's approach to climate change, and set out requirements for clients. Broader operational policy and investment strategies are defined in other IFC and World Bank Group initiatives, such as in the forthcoming World Bank Group Energy Sector Strategy.

8. The updated Performance Standards recognize that resource efficiency is inherently good business in a world increasingly resource constrained. An increased focus on energy efficiency targets greenhouse gases (GHG) through the consideration of options to eliminate or reduce the intensity of emissions, and also aims to help clients run more cost-effective operations. The GHG reporting threshold by clients to IFC is reduced from 100,000 to 25,000 tons CO_2-equivalent per year. The importance of efficient use of water and the strong linkage between climate change and water has been emphasized. In the updated Performance Standards, IFC has also highlighted the need for clients to understand risks and impacts to and from their project in the context of the broader ecosystem.

BUSINESS AND HUMAN RIGHTS

9. There is an emerging international consensus that the private sector has a responsibility to respect human rights. Many corporations, whether IFC clients or not, increasingly acknowledge the relevance of greater integration of human rights relevant to business into their due diligence. The updated Sustainability Policy proposes that IFC continue to rely on the Performance Standards' broad coverage of human rights issues relevant to business. However, IFC also

proposes to explicitly acknowledge the responsibility of the private sector to respect human rights and to recognize that it may be appropriate for clients to undertake additional due diligence in some high risk circumstances. Certain gaps in the current Performance Standards, such as human trafficking, forced evictions, and community access to cultural heritage, have been filled in the proposed Performance Standards. IFC has worked with Bank staff and management in developing this approach and the specific language.

FREE, PRIOR, AND INFORMED CONSENT FOR INDIGENOUS PEOPLES

10. *Performance Standard 7: Indigenous Peoples* has been revised to require that Free, Prior, and Informed Consent (FPIC) be obtained in certain circumstances affecting Indigenous Peoples. This has been an important recommendation from Indigenous Peoples' organizations, and has been adopted by several other development institutions. The key demand from clients is a clear definition of FPIC and operational guidance on how to implement it. IFC intends to strengthen operational guidance on this topic through the Implementation Action Plan (see Annex D).

CATEGORIZATION

11. It is proposed that IFC's environmental and social categorization of projects be amended to be better aligned with the World Bank and other development finance institutions. Inherent risks related to the sector and the sensitivity of the local context will be considered in the categorization decision, in addition to specific project impacts. It is expected that this will double the number of Category A projects entering IFC's portfolio. FI investments will be divided into three risk categories: FI-1, FI-2, and FI-3 that will define the risk management approach required from FI clients.

FINANCIAL INTERMEDIARIES

12. Environmental and social risks encountered by financial markets' clients vary considerably. FIs will be required to develop and implement Environmental and Social Management Systems. Such systems will be designed in accordance with the level of environmental and social risks in their existing and prospective portfolios. FIs categorized as FI-1 will be required to apply the Performance Standards on a portfolio basis; those categorized FI-2 will apply the Performance Standards to higher risk projects in their portfolio, as identified by a screening process for new investments. FIs categorized as FI-3 will screen new investments against the IFC Exclusion List and national law.

SUPPLY CHAINS

13. Requirements for supply chain risk management have been clarified and strengthened, while being cognizant that there are real limits to client actions depending on the position of the client in the supply chain and the dynamics of each individual supply chain. In addition to existing requirements for forced and child labor, provisions are introduced relating to safety and life threatening situations, and client management of supply chain risks in sensitive biodiversity areas.

IMPLEMENTATION

14. Each Performance Standard is accompanied by a Guidance Note that contains more detailed information and suggestions on how clients may implement the requirements in the Performance Standard. All of the Guidance Notes will be updated, and an additional Guidance

Note specifically for FIs is being prepared. IFC will also update its Environmental and Social Review Procedures Manual, which guides staff in decision making and how to consistently apply the Sustainability Framework in a decentralized organization. These updates will be in place well in advance of the new Sustainability Framework becoming effective.

15. Apart from policy considerations, the review process has highlighted valuable lessons related to implementation challenges. IFC proposes to implement the updated Sustainability Framework along with enhanced direct and indirect measures to support a more effective implementation by clients. IFC's Advisory Services will play an important role in building capacity, particularly at the regulatory, sector, and institutional level where value can be added beyond the individual company level. Work in areas such as commodity supply chain risk will be expanded. IFC will also take action to strengthen its own staff capacity through training, recruitment of specialists with expertise in areas of expanded interest, and improved knowledge management.

16. IFC proposes to review experiences with the updated Sustainability Framework after five years of implementation.

RESOURCE IMPLICATIONS

17. Cost effectiveness, for both IFC and its clients, is an important consideration in finding the right balance when establishing the Performance Standards' requirements. Implementation of the updated Sustainability Framework will entail two types of costs to IFC: (i) one-time costs associated with the launch of the updated Sustainability Framework, such as training or enhancements to information technology systems; and (ii) recurrent and incremental costs at the transaction level, such as additional capacity for FI transactions, resource efficiency analyses, and post-commitment disclosure. Estimates of these costs for IFC have been made. Costs to clients are very case specific. The update is not expected to have significant cost impacts on most of IFC's clients.

18. IFC's primary focus will be to ensure effective implementation of the updated Sustainability Framework for its own operations. IFC also aims to further consolidate its role at the center of a global community of practice in an effort to promote consistent implementation of the Performance Standards by all users. This will include continued outreach through operational and strategic partnerships. With the updated Sustainability Framework accompanied by sound implementation practices, IFC will strengthen its position as a global leader able to support the emergence of good practice in the markets in which it works.

MANAGEMENT RECOMMENDATIONS

(A) THAT the Board of Directors approve the policy content of the updated Policy and Performance Standards on Environmental and Social Sustainability, as set out in Annex B of this paper, effective January 1, 2012.

(B) THAT the Board of Directors approve the policy content of the Access to Information Policy, as set out in Annex C of this Paper, effective January 1, 2012.

(C) THAT the Board of Directors authorize the Corporation to publicly disclose a revised and final version of the Sustainability Framework, no later than August 1, 2011.

I. REVIEW AND UPDATE PROCESS

INTRODUCTION

1. This paper presents the key proposed changes to IFC's Policy and Performance Standards on Social and Environmental Sustainability, and Policy on Disclosure of Information (Sustainability Framework) for the consideration and approval of IFC's Board. The paper is structured as follows:

(i) Section I describes the review and update process, and considerations based on experience with implementation and stakeholder feedback.

(ii) Section II highlights key material changes proposed.

(iii) Section III contains a proposed Implementation Action Plan, focusing on client support, strengthened capacity and systems within IFC, and strategic partnerships.

(iv) Annexes A–G provide additional detail and background information, and contain the full text of the updated Sustainability Framework with the sections of text containing material changes highlighted.

BACKGROUND AND OVERVIEW

2. IFC's Sustainability Framework became effective on April 30, 2006. IFC's adoption of this Framework reflected IFC's need to establish an integrated and comprehensive framework focusing on the risk management needs of the private sector.

3. The Sustainability Framework articulates IFC's strategic commitment to sustainable development and is an integral part of its approach to risk management. The Disclosure Policy reflects IFC's commitment to enhance transparency about its operations and promote good governance. The Policy on Social and Environmental Sustainability describes IFC's commitments, role and responsibilities relating to environment and social sustainability. The Performance Standards are designed to help clients avoid, mitigate, and manage risk as a way of doing business in a sustainable way. This risk-based approach also provides IFC with the discipline and flexibility to work across all sectors and across a diversifying product mix. Clients continue to indicate that IFC's environmental and social expertise is an important reason in their decision to work with IFC.

4. Figure 1 illustrates the Sustainability Framework and its accompanying implementation tools for IFC and its clients. The eight updated Performance Standards are:

Performance Standard 1:	Assessment and Management of Environmental and Social Risks and Impacts
Performance Standard 2:	Labor and Working Conditions
Performance Standard 3:	Resource Efficiency and Pollution Prevention
Performance Standard 4:	Community Health, Safety, and Security
Performance Standard 5:	Land Acquisition and Involuntary Resettlement
Performance Standard 6:	Biodiversity Management and Sustainable Management of Living Natural Resources

Performance Standard 7: Indigenous Peoples
Performance Standard 8: Cultural Heritage

Figure 1. IFC's Updated Sustainability Framework and Implementation Tools

5. A summary of the key changes in the updated Sustainability Policy and Performance Standards is provided in Annex A. The full text of the updated Sustainability Framework is provided in Annexes B and C, with the sections of text containing material changes highlighted.

6. IFC uses the Sustainability Framework together with other strategies, policies, and initiatives. While the environmental and social Performance Standards focus on project level risks, IFC addresses broader strategic issues through corporate policies and strategies, including the World Bank Group's forthcoming Energy and Environment Strategies. IFC's Advisory Services and the recently created Climate Business Group are important parts of IFC's commitment to sustainable development.

7. The key drivers behind IFC's move to an Access to Information Policy (AIP) have been the new direction set by the World Bank's move last year to become more transparent, a Bank Group strategic focus on greater results reporting; input from civil society; and input from a review by the Compliance Advisor Ombudsman (CAO) regarding the need to improve stakeholder awareness and communication. Through a new project-cycle disclosure regime, IFC will improve communication on how it manages risk and the development impact of its investments and Advisory Services. This is expected to improve not only IFC's own transparency and accountability, but also project outcomes.

8. In the short time since the Sustainability Framework became effective, the Performance Standards have become globally recognized. They are now considered a leading benchmark for environmental and social risk management, and are often essential pre-requisites for companies

to raise funds, particularly from international markets. The Equator Principles, a voluntary environmental and social risk management framework developed by private sector banks based on IFC's Performance Standards, are now used by 71 financial institutions worldwide. In addition, 32 Export Credit Agencies from the Organisation for Economic Co-operation and Development (OECD) refer to the Performance Standards. European Development Finance Institutions (EDFIs) also use the Performance Standards in their operations, and in 2008 the European Bank for Reconstruction and Development (EBRD) modeled its own Performance Requirements on IFC's Performance Standards. In addition, a significant number of private sector companies and business associations use IFC's Performance Standards as a global benchmark for environmental and social risk management.

9. In approving the 2006 Sustainability Framework, IFC's Board requested management to assess the effectiveness of the Framework and report back on its implementation experience. In July 2009 IFC presented the report *"IFC's Policy and Performance Standards on Social and Environmental Sustainability, and Policy on Disclosure of Information: Report on the First Three Years of Application"* to the Committee on Development Effectiveness (CODE). Based on the findings of this report, which reflected IFC's changing product offering, a changing global environment, and IFC's implementation experience, the Board agreed on July 29, 2009 with the proposal to initiate a review and update process of the 2006 Sustainability Framework. CODE was briefed on progress with updates on May 5, 2010 and December 15, 2010 and authorized subsequent rounds of public consultation.

10. IFC launched the review and update process formally on September 8, 2009. The process was described in the *"Overview of Consultation and Engagement Process"* document sent to CODE on August 26, 2009.

11. The proposed changes draw upon several inputs as well as operational lessons learned:

- IFC's and clients' experience since 2006 in applying the Performance Standards to projects;
- Evaluations and reviews by the World Bank Group's Independent Evaluation Group (IEG) and IFC's CAO;
- A systematic consultation process in three phases between September 2009 and March 2011, with stakeholder discussions and events open to the public in locations in Africa, Asia, Europe, Latin America, and North America;
- Discussions with staff and management at IFC, MIGA, and the World Bank, in both headquarters and regional offices; and
- Guidance from the World Bank Group's Board of Executive Directors, through two separate reviews by CODE on earlier drafts of the updated Sustainability Framework, as well as numerous meetings and discussions with Executive Directors and their Advisors

CONSULTATIONS WITH STAKEHOLDERS

12. IFC's proposed updated Sustainability Framework has benefited from comprehensive inputs and suggestions from a large number of stakeholders. Participants in the process included

IFC's clients, the financial sector, multilateral and bilateral financial institutions, business associations, trade unions, civil society organizations (CSOs), Affected Communities, think tanks, United Nations (UN) agencies, and governments. In addition, an external advisory group was formed. As anticipated, the most active participation and the bulk of the written comments and recommendations came from CSOs.

13. Ongoing and detailed discussions have been held with the Equator Principles Financial Institutions (EPFIs), who are an important reference and partner group. Discussions have also been held with EDFIs and OECD Export Credit Agencies.

14. The principal events for outreach and consultations were the multi-stakeholder consultations and open house events organized during Phases II and III in different parts of the world. These events allowed for debate among different stakeholder groups, and were essential inputs to the review process. (For a full list of consultation events during Phases II and III, see Annex F: Chronology of IFC's Sustainability Framework Review and Update Process.)

15. Internally, there have been extensive discussions at various levels. An advisory group of Investment Officers and legal staff with Director level involvement has systematically reviewed and commented on various drafts. Inputs and suggestions have been received from groups across IFC, including staff and management in regional offices. Environmental and Social Specialists within IFC have led the process for the Policy and Performance Standards on Environmental and Social Sustainability, and have prepared initial drafts of the documents. The update to the AIP was led by IFC's Corporate Relations staff. Staff from the World Bank and MIGA have also provided comprehensive comments and suggestions.

16. As reflected in the earlier drafts of the Sustainability Framework, IFC has sought to balance several considerations: providing global leadership on current and emerging environmental and social issues; setting standards that establish good industry practice; and promoting transparency for the private sector. The proposed updated Sustainability Framework seeks to clarify the distinction between requirements and good practice approaches, and addresses the different responsibilities of clients in situations where potential adverse impacts are attributable to projects and in situations outside of clients' direct control. In presenting the current proposal, IFC has sought to provide a cost effective and clear policy framework that will not preclude clients committed to continual improvement of their practice from engaging with IFC.

17. While the proposed changes may seem extensive if one does a detailed comparison, most of the revised language represents either clarifications or more explicit reference to approaches that have become recognized as standard practice in recent years. The limited number of material changes is summarized below in section II: Overview of Key Proposed Changes. The changes introduced are likely to mainly affect projects with a significant footprint and impact, particularly if they operate in high risk environments.

II. OVERVIEW OF KEY PROPOSED CHANGES

ACCESS TO INFORMATION

18. Transparency and accountability are fundamental to fulfilling IFC's development mandate. Feedback from stakeholders helps promote strong development outcomes, and transparent organizations are better able to manage reputational risk.

19. IFC's proposed AIP is its next step toward becoming a more transparent and effective organization. The new policy represents a major shift from the current Disclosure Policy (2006) and aligns IFC with the principles of the World Bank's 2010 Access to Information Policy.

20. Under the proposed AIP, IFC will retain the presumption in favor of disclosure. IFC will disclose more project-level environmental, social, and development-outcome information during all stages of the project. For high risk projects, IFC will endeavor to disclose relevant environmental and social impact assessments early in the process, and, in some cases, even before IFC has completed its own review.

21. One outcome of this policy shift will be an emphasis on greater results reporting, which is also consistent with World Bank Group objectives. In the proposed AIP, IFC will disclose indicators[1] from its Development Outcomes Tracking System for all Category A and B projects, and Category FI-1 and FI-2 Financial Intermediaries (FIs) through updates to the Summary of Investment Information. IFC will also make available reports regarding actions taken by the client under its Environmental and Social Action Plan (ESAP) to mitigate the environmental and social risks and/or impacts identified by IFC's environmental and social review. Where a project's potential risks and/or impacts are not known at the time of Board approval, such information will be disclosed when it becomes available later in the project cycle. The result will be a more fluid and continuous disclosure process.

22. The AIP also includes requirements to disclose more information about IFC's own determination of Broad Community Support (BCS), or if applicable, the status of Free, Prior, and Informed Consent (FPIC) of Indigenous Peoples, through updates to IFC's Environmental and Social Review Document. In addition, IFC has committed to disclose the greenhouse gas (GHG) emissions of its portfolio. The updated Sustainability Policy requires contract disclosure for extractive industry projects in addition to the existing requirement of revenue transparency.

23. The new environmental, social, and development impact disclosure requirements will also apply to investments made through FIs, an important and growing area of IFC's portfolio. For FI clients, this information will be reported at the FI portfolio level and will be focused on the client's Environmental and Social Management System (ESMS). IFC will also make available more information about its Advisory Services, including development results and how any relevant environmental and social risks associated with implementation of the project are mitigated.

24. IFC will continue to maintain provisions to protect commercially sensitive, deliberative, and confidential information, which are defined in the list of exceptions to the proposed AIP.

[1] Confidential information will continue to be protected.

When IFC makes investments in listed companies, it may delay the disclosure of certain information due to market considerations or other regulatory issues related to public companies. The AIP retains this provision, and allows Directors the authority to delay access to such information. IFC releases this information as soon as market conditions allow. Aligning with best practice adopted by the World Bank, IFC will also institute a two-stage appeals mechanism to allow stakeholders an independent avenue to appeal a decision not to disclose particular information that was requested.

25. The operational implications for a project-cycle disclosure regime will require greater resources devoted to project monitoring and supervision, to ensure that information on environmental and social performance and development impact is received from clients in a more systematic and timely manner, as well as one-time resources needed for information technology enhancements. As the new regime is implemented, greater attention from staff will be needed to explain IFC's new disclosure requirements to clients and to work with clients to ensure that information is timely and of adequate quality to disclose. This new regime will allow IFC to more effectively and systematically communicate its development impact in the long term.

THEMATIC AND OPERATIONAL ISSUES

26. The treatment of several themes and issues has been strengthened or made explicit. The changes broadly fall into two main categories:

1. Areas of emerging global consensus where clearer requirements and guidance for clients are needed, which include climate change; ecosystem services; business and human rights; and Indigenous Peoples' FPIC.

2. Operational aspects such as:
    - how best to categorize projects from a risk perspective;
    - how to manage risks with FIs;
    - how to address supply chain issues; and
    - stakeholder engagement, in particular with Affected Communities, as a key challenge for implementation.

CLIMATE CHANGE

27. Climate change is a critical determinant of development, as outlined in the World Bank Group's Strategic Framework for Development and Climate Change. Climate change also represents challenges for clients in managing risks and impacts related to mitigation and adaptation.

28. Since the introduction of the 2006 Sustainability Framework, addressing climate change has evolved as one of IFC's strategic priorities. IFC's strategic and operational approaches to the climate agenda reflect the commitments made in the World Bank Group's Strategic Framework for Development and Climate Change. In this regard, IFC is accelerating the mainstreaming of climate-related considerations across industry and regional departments, with specific targets for climate-friendly investments, including a medium-term target of 25 percent of new investments for IFC's own account by the end of FY13. Climate-friendly investments increased by 54 percent

in FY10. Similar growth is occurring with Advisory Services. IFC recently established a Climate Business Group to support the integration of climate considerations across its operations and to develop and grow innovative products and financing solutions that provide climate benefits.

29. The ongoing review and update of the Sustainability Framework has provided IFC with an additional opportunity to recognize the cross-cutting nature of the issues that climate change raises for the private sector. The Sustainability Policy articulates IFC's commitment to low carbon development, consistent with the Strategic Framework for Development and Climate Change, as well as IFC's response to these challenges through investments and Advisory Services in the areas of energy efficiency, cleaner production, renewable energy and carbon markets. IFC is also committed to managing and reporting on the carbon footprint of its direct investment portfolio.

30. The updated Performance Standards recognize that resource efficiency is inherently good business in a world increasingly resource constrained. Mitigation and adaptation aspects are addressed in *Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts; Performance Standard 4: Community Health, Safety, and Security;* and *Performance Standard 6: Biodiversity Management and Sustainable Management of Living Natural Resources*, in addition to the central place that climate considerations have in *Performance Standard 3: Resource Efficiency and Pollution Prevention*. Performance Standard 3 has been updated and renamed to emphasize this focus and to help implement resource efficiency and pollution prevention measures. This specifically targets GHG through the consideration of options to eliminate or reduce the intensity of emissions. For projects that are more energy and resource intensive, benchmarking is required, where data is available, to demonstrate the efficiency of the project. This focus on GHG includes a lowering of the emissions reporting threshold by clients to IFC from 100,000 to 25,000 tons CO_2-equivalent per year. IFC expects this will increase the number of clients calculating their emissions on an ongoing basis, and will allow a better oversight of the changes and developments in the GHG footprint of its direct investment project portfolio. The focus on quantification is expected to lead to an increase in GHG reduction measures adopted by clients, which will result in increased business efficiency.

31. *Performance Standard 3: Resource Efficiency and Pollution Prevention* also recognizes the strong linkage between a changing climate and water resources, and the fact that water is an increasingly scarce commodity. IFC has therefore made the requirements on water use more explicit, calling on clients to use water in an efficient manner, to examine the impacts of their water consumption on other users, and to also understand how their project may have an impact on the broader ecosystem.

32. The theme of ecosystem services was included in the 2006 version of Performance Standard 6. Ecosystem services are defined as benefits that people obtain from ecosystems. This includes provisioning services (such as food, freshwater, shelter, and timber), regulating services (such as surface water purification, carbon storage and sequestration, climate regulation, and protection from natural hazards), and natural cultural services (such as cultural heritage and sacred sites), which are linked to biodiversity. In the proposed revision, IFC expands its treatment of ecosystem services by including it in other Performance Standards.

BUSINESS AND HUMAN RIGHTS

33. There is an emerging global consensus that the private sector has a responsibility to respect human rights, independently of state duties to respect, protect, and fulfill human rights. This private sector responsibility can be met by avoiding or addressing adverse human rights impacts from business operations through due diligence.

34. Corporations, whether IFC clients or not, increasingly acknowledge the relevance of greater integration of human rights relevant to business into corporate activities. Some have already experienced the negative consequences of neglecting this issue, while others have benefited from taking the human rights risks relevant to business into consideration at an early stage. The most consistent message from these companies and other interested parties, such as financial institutions, is the need for greater clarity and consistency, and practical guidance on implementation at the operational level.

35. Reflecting these developments, the Sustainability Policy proposes that IFC continue to rely on the Performance Standards' broad coverage of human rights issues relevant to business. In addition, IFC proposes in *Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts* to explicitly acknowledge the responsibility of the private sector to respect human rights and to recognize that clients may undertake additional due diligence in certain high risk circumstances. Furthermore, the Performance Standards have been updated to address human trafficking, forced evictions, and community access to cultural heritage, among others. IFC has worked with Bank staff and management in developing this approach and the specific language. Additional support will be provided to clients in this area through updated Guidance Notes and future good practice notes, including on methodologies for due diligence.

FREE, PRIOR, AND INFORMED CONSENT FOR INDIGENOUS PEOPLES

36. During the review process, IFC received a significant number of recommendations related to the adoption of the term "Free, Prior, and Informed Consent" for Indigenous Peoples. Most recommendations, particularly from representatives of Indigenous Peoples, argued in favor of IFC adopting the term. Industry groups and clients stressed the need to limit this to potentially significant impacts on Indigenous Peoples, and to define FPIC clearly and provide operational guidance on how it would be implemented.

37. IFC believes that the proposed approach reflects the international consensus on the rights of Indigenous Peoples, and is defined in such a way that IFC's clients can be clear on what is expected of them. *Performance Standard 7: Indigenous Peoples* will require clients to apply FPIC under the following circumstances when projects may adversely affect Indigenous Peoples:

- Impacts on lands and natural resources subject to traditional ownership or under customary use;
- Relocation of Indigenous Peoples from lands and natural resources subject to traditional ownership or under customary use; or
- Significant impacts on cultural resources (i) that are critical to the identity and/or cultural, ceremonial, or spiritual aspects of Indigenous Peoples' lives; or (ii) where a

project proposes to use the cultural resources, knowledge, innovations, or practices of Indigenous Peoples for commercial purposes.

38. The legitimacy of FPIC as a process requires agreement by the culturally appropriate decision making body within the Indigenous Peoples' community. It does not require agreement by all community members and does not imply veto power. There may be individuals, factions, or subgroups who disagree.

39. IFC has received largely positive feedback from Indigenous Peoples' representatives on the proposed approach, as well as from other concerned stakeholders. Clients are generally supportive, but they and others, including the EPFIs, highlighted the need to strengthen operational guidance and knowledge related to how FPIC will be applied in different contexts.

CATEGORIZATION

40. IFC uses project-level environmental and social categorization to signal the level of potential impacts identified in IFC's environmental and social due diligence process and trigger IFC disclosure requirements. Under the proposed Sustainability Policy, inherent risks related to the sector and the sensitivity of the local context will be considered in the categorization decision, in addition to specific project impacts. This categorization process is linked to IFC's AIP, which specifies IFC's institutional requirements to disclose project information to the public prior to presenting projects to its Board of Directors. One of the goals for this update process was to better align IFC's process with the categorization systems of the World Bank and other Development Finance Institutions (DFIs). It is expected that including inherent risk in the determination of categorization along with impacts should accomplish this.

41. The following describes the levels of categorization and the corresponding requirements:

Category A: Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.

Category B: Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

Category C: Business activities with minimal or no adverse environmental or social risks and/or impacts.

42. All projects are required to adhere to the requirements of national law and are subject to the IFC Exclusion List. Category A and B projects are also required to apply the Performance Standards.

43. Based on an analysis of the implications of the proposed changes to the categorization framework against IFC's FY10 commitments, the number of Category A projects would most likely double on an annual basis, primarily in the infrastructure, natural resource, and agribusiness sectors. Over the last four years, the number of Category A projects has fluctuated in the range of 5 to 10 projects per year, representing 2–4 percent of direct investment projects on an annual basis. Under this new categorization system, this number is expected to increase to about 5–7 percent of direct investment projects. This number is about the same as that of EBRD

(almost 7 percent), which is the international financial institution with the business model most similar to that of IFC.

44. Category FI is applied to business activities involving investments in FIs or through delivery mechanisms involving financial intermediation. This category is further divided into FI-1, FI-2, and FI-3 to better reflect the relative portfolio risk profile to the Board and the public, and differentiate the risk management approaches required. IFC will consider the tenor, type, size, and sectoral exposure of the FI's planned and portfolio investments in determining the categorization. All FIs will be required to apply the requirements of national law to their portfolio.

> **Category FI-1**: FIs with existing or proposed portfolios that include, or are expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible or unprecedented. The Performance Standards and the IFC FI Exclusion List will apply to the relevant portfolio supported by IFC's investment.
>
> **Category FI-2**: FIs with existing or proposed portfolios that are expected to be comprised of business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. Some may have portfolios with a very limited number of transactions in high risk sectors or higher risk type of transactions. The Performance Standards, national law, and the IFC FI Exclusion List will be applied to high risk subprojects while medium-risk subprojects will apply the IFC FI Exclusion List.
>
> **Category FI-3**: FIs with existing or proposed portfolios with financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts. The IFC FI Exclusion List will apply.

FINANCIAL INTERMEDIARIES

45. IFC has long recognized the vital development role played by financial institutions in emerging markets. Investments in and through FIs, including the short-term trade finance business, now account for almost half of IFC's new business.

46. IFC expects FIs to manage environmental and social risks arising from their operations. To this end, IFC reviews the existing and prospective portfolio of its FI clients to identify activities that may pose environmental or social risks. The portfolio is categorized in order to identify the appropriate risk management approach, and corresponding actions are agreed on between IFC and the FI.

47. FI clients are required to develop and operate an ESMS commensurate with the level of environmental and social risks in their current portfolio and proposed investment strategy.

- FI-1 and FI-2 institutions that support business activities with environmental and social risks will be required to operate an ESMS to review risks and impacts of such business activities against the IFC FI Exclusion List and relevant national law, work with their borrowers/investees on agreed avoidance and mitigation measures, and monitor implementation. These FIs are required to undertake individual transaction appraisal and monitoring and overall portfolio management

in accordance with the environmental and social risk profile of the investment/lending activities they support. FI-1 institutions are required to apply the Performance Standards to their relevant portfolios supported by IFC's investment, while FI-2 institutions apply Performance Standards to high risk subprojects (e.g., long-term corporate and project finance) in the portfolio supported by IFC's investment.

- FI-3 institutions will be required to screen the business activities they support against the IFC FI Exclusion List (e.g., short-term finance).

48. The updated Sustainability Policy also requires that each FI client apply relevant requirements of *Performance Standard 2: Labor and Working Conditions* to its direct labor force, which is consistent with current IFC practice for FIs.

49. The scope of the required risk management approach also depends on IFC's investment type. In cases where IFC's investment is directed to a specified end use (e.g., credit lines for targeted subprojects), IFC requirements regarding environmental and social risk management only cover the specified targeted activity. However, if the FI supports similar activities from its own account, IFC requirements would then apply to the entire asset class supported in order to avoid double standards in the same asset class. Even if IFC's requirements apply only to a specific asset class, IFC will encourage the FI's management to apply IFC's requirements across its operations. In cases where IFC provides equity or general purpose financial support, with no specified end use, IFC's requirements regarding environmental and social risk management will normally[2] apply to the FI's portfolio originated from the time IFC became a shareholder or lender.

50. IFC recognizes that it is important to understand the effectiveness of and impacts from the financial support that it provides through FIs. IFC implements a regular program of supervision of FI investments with environmental and social risks in accordance with the requirements of IFC's Environmental and Social Review Procedures. To determine the effectiveness of an FI's ESMS, IFC will periodically review the process and the results of the environmental and social due diligence conducted by the FI for its investments. IFC supervision may include visits at the FI level, as well as to recipients of FI loans/investments, particularly high risk subprojects. The frequency and focus of supervision visits is commensurate with the identified risks. IFC works with its FI clients to help them address any shortcomings in their ESMSs.

SUPPLY CHAINS

51. The updated Performance Standards take into account the fast evolving complexities of supply chain management. As part of their ESMSs, clients will develop steps to continuously screen and monitor for supply chain risks in circumstances where they are likely to encounter such risks. On labor issues, *Performance Standard 2: Labor and Working Conditions* broadens the scope beyond the previous requirement to inquire about and address child labor and forced labor in clients' primary supply chains. Performance Standard 2 now requires primary suppliers to ensure that they address serious safety issues that may result in fatalities.

[2] There may be some instances where a discrete portfolio subset of the FI business is appropriate.

52. *Performance Standard 6: Biodiversity Management and Sustainable Management of Living Natural Resources* has been expanded to outline requirements for clients to assess whether their primary suppliers are contributing to degradation or conversion of natural and critical habitats. If this is the case, clients will either shift their purchasing to suppliers who are not, or work with their suppliers to stop conversion of sensitive habitats. It is recognized that there may be commodities or geographic locations where clients cannot take either step. In such cases IFC will expect the client to shift suppliers over time, or, if this is not possible, IFC will decide if it is able to support the project given the risks.

STAKEHOLDER ENGAGEMENT

53. Stakeholder engagement in general, and consultations with Affected Communities in particular, has proven to be a challenging area for many clients as highlighted both by IEG and CAO. In response IFC has clarified requirements for stakeholder analysis and attention to different stakeholder groups' views and concerns. This includes more attention to differentiated needs based on aspects such as age, gender, poverty, or vulnerability where relevant.

54. A structured approach with different levels of stakeholder engagement from the most basic of external communications to FPIC is described in *Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts*, the umbrella standard that applies to all projects (see Table 1).

55. Certain projects may require third party monitoring or verification. The approach recommended is to require third party expertise or verification as project risk and complexity increase. There have been recommendations that third party monitoring be undertaken for all projects, regardless of risk, but this would be an unnecessary expense for clients given the multiple levels of verification and monitoring that are already required. The paragraph below outlines the Performance Standards' requirements for verification and monitoring.

56. During supervision, the project submits an Annual Monitoring Report (AMR) and an update on how it is implementing the requirements of the ESAP to IFC. IFC reviews this information and verifies it with site visits, the frequency of which is determined by the risk and performance of the project. Clients are required to provide at least annual updates to the Affected Communities that describe progress on project action plans for issues that involve ongoing risk to or impacts on Affected Communities, and for issues that the consultation process or grievance mechanism have identified as a concern to those communities. Where appropriate, clients will consider involving representatives from Affected Communities to participate in monitoring activities. In addition, for Category A projects, it is a requirement for clients to retain external experts to verify their annual monitoring information. On many complex projects, IFC is part of a lenders group where a third party is retained to assist the group with monitoring, where companies have corporate requirements related to auditing and where there are regulatory audit requirements. As complex or specialty issues are encountered, *Performance Standard 4: Community Health, Safety, and Security*; *Performance Standard 5: Land Acquisition and Involuntary Resettlement*; *Performance Standard 6: Biodiversity Management and Sustainable Management of Living Natural Resources*; and *Performance Standard 8: Cultural Heritage* may require additional expertise during monitoring, regardless of the project categorization.

Table 1. Stakeholder Engagement

Stakeholder Engagement Requirement	Trigger	Client Actions
External Communications	All projects	Implement and maintain a procedure to facilitate communications with the public
Environmental and Social Information Disclosure	All projects with Affected Communities	Local disclosure of relevant information to Affected Communities
Consultation	Adverse impacts on Affected Communities	Dialogue with Affected Communities
Informed Consultation and Participation	1) Potentially significant adverse impacts on Affected Communities or 2) Potentially adverse impacts on Indigenous Peoples' communities	Disclose information early and conduct consultation in an in-depth manner that results in the Affected Communities' informed participation
Free, Prior and Informed Consent (FPIC)	Certain circumstances adversely affecting Indigenous Peoples' communities	Obtain FPIC in certain circumstances
Grievance Mechanism	Affected Communities	Establish a channel to receive and respond to Affected Communities' grievances

III. IMPLEMENTATION ACTION PLAN

57. IFC's application of the updated Sustainability Framework will be informed by its experience in applying the 2006 Policies and Standards. IFC's approach is a systematic, pragmatic, and flexible one that requires risk management commensurate with the level of risks, taking into account client commitment, capacity and resources. IFC understands that clients often have preferences and options to meet specific performance levels, and this is where IFC's flexible approach is particularly helpful: This is not a one-size-fits-all approach but one that is appropriately tailored through engagement with clients. So long as clients are committed to achieving good environmental and social performance, IFC is prepared to work with them, consistent with its mission and mandate.

58. Clients are asked to agree with IFC an Action Plan that spells out the concrete actions to be taken over a reasonable period of time to enable them to meet the applicable Performance Standards. In addition, clients must comply with applicable national laws, including those laws implementing host country obligations under international law. Various parts of the Performance Standards and Guidance Notes explain how to apply the Performance Standards when national law provides for different levels of performance. And IFC's Advisory Services, in particular the Sustainability Business Line, to be expanded significantly, will help them meet the applicable requirements, and to exceed them.

59. IFC's Sustainability Framework is only as good as its implementation. Experience has shown that gaps in implementation are not uncommon, particularly among clients with limited capacity operating in difficult environments. Given the strategic direction of IFC's operations, with increased investments in IDA countries and fragile states, it is likely that implementation challenges will increase. Weak institutions and limited local expertise on environmental and social issues make it difficult for some clients to follow through on action plan implementation, even when they are fully committed to the objectives of the Performance Standards. However, given evolving standards, expectations, and increased market demands, implementation challenges also exist even where technical capacity is present. This offers opportunities for sector-wide and programmatic approaches, providing IFC with different avenues of engagement.

60. IFC proposes an Implementation Action Plan to address implementation challenges, with initiatives grouped into three broad areas: (i) strengthening IFC's capacity and systems; (ii) client support; and (iii) strategic partnerships. IFC will orient its knowledge work to contribute to pressing and evolving issues in sustainability and implementation, and develop approaches for real-time sharing of information between and among Environmental and Social Specialists, clients, and partners. Annex D provides an action plan matrix that highlights key activities in each area, including responsibilities. Progress in implementation will be monitored on a bi-annual basis, tracking both the completion of actions and the effectiveness of the guidelines, instruments, and tools that are provided to staff and clients. IFC proposes to review experiences with the updated Sustainability Framework after five years of implementation.

IFC CAPACITY AND SYSTEMS

61. Environmental and Social Specialists and Investment Officers should be able to adapt quickly to the proposed changes. However, updates to the Sustainability Framework must be

supported by an institution-wide refresher on environmental and social risk management and sustainability matters to ensure consistent and high quality advice to IFC's clients. The Sustainability Framework, particularly when considered in the context of new recruitment, turnover, and decentralization of IFC staff, will therefore be supported by ongoing training across the organization, targeted to different job streams. The updates also require revisions to the procedures and systems to maintain or establish efficient platforms for Investment Officers and Environmental and Social Specialists to adequately monitor progress in implementation and capture lessons from experience. In particular, changes to the AIP will require information systems updates that will take some time to implement. Staff will also need training on the new disclosure requirements in the AIP.

62. IFC will increase the support to clients by recruiting eight Environmental and Social Specialists: four focusing on FIs, two for resource efficiency, and two on training development and partnership coordination.

63. As part of its strategic approach to knowledge management, IFC will strengthen the sharing of lessons learned to help identify trends and good practice. Quality control measures will be developed to ensure that the organization's global knowledge is applied consistently, even in a decentralized context.

64. Key proposed activities to strengthen IFC capacity in these areas include the following:

- Updated Guidance Notes will be available by mid-2011 (including clarifications and new Guidance/Interpretation Notes described in Annex G), and other guidelines and knowledge products will be updated on an ongoing basis;
- A core curriculum for learning related to the Sustainability Framework will be developed;
- Training programs and induction programs reflecting the updated Sustainability Framework will be delivered to key staff. This includes strengthening of Environmental and Social Specialists' skills in key thematic areas such as supply chain management, social and labor assessments, resource efficiency and climate change, ecosystem services, and how to support clients' stakeholder engagement, including aspects related to FPIC for Indigenous Peoples;
- From a systems and quality assurance perspective: (i) clients' AMR templates will be revised and updated, (ii) the structure of Summary of Investment Information and the ESAP template will be redesigned to support post-commitment disclosure, (iii) a template for the disclosure of BCS determination will be developed; and
- Training and guidance materials for staff and systems update related to the AIP will be launched.

CLIENT SUPPORT

65. The main support for the client's implementation of the Performance Standards will continue to come from IFC's Environmental and Social Specialists and Investment Officers. IFC will support clients in addressing gaps in their capacity to implement certain aspects of the Performance Standards through sustained client engagement, particularly with lower capacity

clients operating in difficult environments. IFC recognizes that its clients face different challenges, hence it must adjust its engagement to the prevailing conditions and circumstances.

66. Updates to the currently available tools for clients, and the development of new ones, will be required (e.g., Guidance Notes, Good Practice Notes, Interpretation Notes, thematic handbooks, etc.).

67. In the context of IFC Advisory Services' strategic focus on "access to markets," advisory teams will develop programs aiming to mobilize company-level and sector-level support to contribute to the successful implementation of the Sustainability Framework. Sustainable Business Advisory teams will be available to work with individual companies, sector-level organizations and other aggregators, and country-level institutions. In all three categories interventions will include, but will not be limited to, gap-analyses, training, and strategic engagements with client companies.

68. Targeted Advisory Services to the financial sector related to IFC Performance Standards are a priority, and several projects are currently being developed/implemented:

(i) Environmental Performance & Market Development project in Africa: a three-year project is currently being developed to increase uptake of environmental and social Performance Standards by financial institutions in Nigeria and South Africa on a pilot basis. The project aims to (a) enhance environmental and social regulatory frameworks and standards for FIs, and (b) disseminate knowledge and train FIs (directly or through intermediaries) on environmental and social issues, leveraging web-based and other materials. IFC's existing web-based Environmental and Social Toolkit for private equity fund managers is being adapted for banks.

(ii) Environmental and Social Risk Management for the Banking Sector in East Asia: in both China and Vietnam, IFC seeks to encourage banks to apply good environmental and social practices in their lending to manage risk as well as find new business opportunities. As a first step, IFC Advisory Services will be working with banking regulators over the next two years to develop environmental and social risk management guidelines for the banking sector, and plans to build implementation and monitoring capacity for regulators after issuance of these guidelines.

(iii) Environmental and Social Policy and Standards for Private Equity: a two-year global project is being developed with the aim to establish good environmental, social, and governance (ESG) practice, and good reporting in the private equity industry. Specifically, the project will build capacity for fund managers to understand and include ESG issues in their due diligence and management of investments. It will also engage with investors (starting with DFIs and signatories to the UN Principles on Responsible Investments) to align their ESG requirements.

STRATEGIC PARTNERSHIPS

69. The third pillar of the Implementation Action Plan deals with opportunities for leveraging IFC's experience and knowledge through strategic partnerships. There is a recognized need to further promote the Performance Standards among financial institutions in emerging markets, and to improve consistency and quality of implementation. IFC proposes to build on and

leverage its role as standard setter through strategic partnerships with organizations such as the EPFIs; EDFIs; OECD Export Credit Agencies; and other important partners at the market, industry, and, in a few cases, national levels. IFC would therefore work through strategic partnerships, including with the World Bank, to contribute to improvements in the enabling environments and markets where its clients operate, and towards greater consistency and harmonization among financial institutions and development organizations on environmental and social standards.

70. In working in this programmatic manner through strategic partnerships, IFC will continue to provide policy-oriented advice to external users of the Performance Standards. This will be done through various tools and programs such as Performance Standards outreach activities in selected markets, and support to communities of practice and learning such as the existing Community of Learning events around Performance Standards that IFC hosts annually.

71. Finally, in addition to the market and industry oriented aspect of strategic partnerships described above, IFC will further examine opportunities and pursue priority partnerships where it can strengthen or establish operational level partnerships that directly support its client capacity objectives. This means closer collaboration and coordination with other Multilateral Development Banks that often co-finance investments with IFC or that are active in the same markets.

IV. COST EFFECTIVENESS AND RESOURCE IMPLICATIONS FOR IFC AND ITS CLIENTS

72. Throughout the review and update process, IFC has sought to strike the right balance between strengthening the Sustainability Framework and ensuring that the proposed updates will be robust, implementable, lead to enhanced sustainability outcomes and avoid unreasonable costs and lost opportunities for IFC and its clients. The main focus of IFC's analysis of the resource implications has been on the incremental impacts of the proposed updates on project processing for IFC and its clients compared to the requirements under the 2006 Sustainability Framework. The analysis also resulted in an assessment of knowledge and capacity gaps for IFC. The analysis considers an estimate of how frequently the proposed changes would have been applied using FY10 as a baseline, as well as various scenarios for IFC's investments in the next four years.

COSTS TO IFC

73. Implementation of the updated Sustainability Policy and AIP, as well as supporting clients in implementing the requirements of the Performance Standards, will entail two types of costs to IFC: (i) one-time costs associated with the launch of the updated Sustainability Framework (such as training or enhancements to information technology systems); and (ii) incremental recurrent costs at the transaction level such as additional capacity for FI transactions, resource efficiency analyses, and post-commitment disclosure.

74. One-time costs related to the updated Sustainability Framework are estimated to total about $4.14 million over FY12 and FY13. This is moderate, since the proposed updates represent

enhancements to the requirements that have been in place for over five years. The costs are related to the areas discussed in the paragraphs below.

75. Internal capacity will have to be strengthened in a few specific areas such as supply chain management, social and labor assessments, resource efficiency, and climate change, as well as ecosystem services. Expanding the knowledge base and updating internal management systems in IFC's Environment, Social and Governance Department (CES) to effectively support the roll-out of the proposed changes would cost approximately $1.6 million over FY12 and FY13. The cost of training programs for the updated Sustainability Framework is estimated at $1.5 million over FY12 and FY13.

76. There will also be one-time costs estimated at $750,000 associated with information system upgrades needed to develop and implement the AIP e-system upgrade, as well as costs associated with staff training on new requirements of the policy estimated at $290,000 in FY12.

77. Introduction of the updated Sustainability Framework will also involve a modest increase in IFC's recurrent processing costs. Additional costs are anticipated in three different cost centers: (i) environmental and social investment support provided by CES; (ii) transaction costs related to the Investment Departments that will be incurred by Investment Officers and portfolio management staff; and (iii) support from the Corporate Relations Department for implementation of the AIP.

78. Annual incremental recurrent costs related to the updated Sustainability Policy and the Performance Standards for CES are expected to represent about 6 percent of the FY10 budget for environmental and social investment support. Key areas where additional capacity will be needed include investment support for FI operations, and for energy and resource efficiency analysis. Actual costs will vary in accordance with the mix of projects that IFC delivers beginning in FY12, but are estimated to be about $760,000 in FY12 and about $1.2 million annually thereafter.

79. Incremental costs are also anticipated for investment and regional departments as a result of the expected doubling of Category A projects. These typically involve more internal processing and engagement with clients and stakeholders. There will also be additional costs related to expanded appraisal of FI projects under the new categorization approach. Incremental costs are estimated to be about $900,000 in the first year (FY12), with additional incremental costs in the following three years estimated in the range of $1.1 million to $2.7 million by FY15.

80. Costs related to the implementation of the AIP are largely related to the cost of delivering on a significantly stronger post-commitment disclosure framework, and greater attention to information management from supervision and portfolio management activities. These requirements involve additional project-level transactions, many on an ongoing basis during the life of IFC's investment, which will aggregate over time as projects coming into IFC's portfolio apply the provisions of the new policy. The bulk of the costs related to implementation of the AIP will be with the investment departments. This is estimated at $1.1–1.85 million in FY12, and $3.15–$5.6 million in FY15, when a significant part of the portfolio will have transitioned to the new AIP, which involves post-approval project-level disclosure by IFC. It is estimated that

annual cost increases would be about $200,000 for CES ($75,000 in FY12), and $250,000 for the Corporate Relations Department to support ongoing disclosure requirements.

COSTS TO CLIENTS

81. Costs to clients are very difficult to estimate at an aggregate level. Clients will face different operational or capital costs depending on their own business decisions on how to best meet the Performance Standards, on the suppliers and procurement processes they use, and on their own business targets. The costs to clients will also vary depending on which Performance Standards are triggered, and on the complexity or sensitivity of their operating environments. Most of the proposed changes have low frequency/incidence and low incremental cost implications to IFC's clients. Most Category B projects would not incur any additional costs, and the impact of the proposed changes on small and medium enterprises is expected to be minimal. The table in Annex E: Summary Cost Table, provides an estimate of incremental transaction or process costs to clients, ranked as High, Medium, and Low. Most cost increments will apply to clients whose projects trigger *Performance Standard 3: Resource Efficiency and Pollution Prevention* or *Performance Standard 6: Biodiversity Management and Sustainable Management of Living Natural Resources*.

International Finance Corporation
World Bank Group

ANNEX A

Summary of Key Changes in the Sustainability Policy and Performance Standards

International Finance Corporation

April 14, 2011

ANNEX A. SUMMARY OF KEY CHANGES IN THE SUSTAINABILITY POLICY AND PERFORMANCE STANDARDS

Sustainability Policy

- Strengthens IFC's commitments to climate change, business and human rights, corporate governance, and gender
- Revises and strengthens categorization system:
  - Greater emphasis on inherent risks and project context
  - Financial Institutions (FIs): Category 1, 2, or 3
- Strengthens due diligence for FIs
- Clarifies due diligence for Advisory Services
- Strengthens requirements for extractive industry projects disclosure

Performance Standard 1

- Changes name to "Assessment and Management of Environmental and Social Risks and Impacts"
- Refers to private sector responsibility to respect human rights
- Introduces better applicability to investments other than project finance (non-defined assets concept)
- Requires stakeholder engagement beyond Affected Communities
- Clarifies levels of stakeholder engagement under different circumstances
- Requires development of a formal environmental and social policy reflecting principles of the Performance Standards
- Introduces participatory monitoring (when appropriate) as an option during implementation
- Requires periodic performance reviews by senior management

Performance Standard 2

- Establishes requirement for comparable terms and conditions for migrant workers compared to non-migrant workers
- Introduces quality requirements for workers' accommodation
- Requires ongoing monitoring of working conditions for workers under the age of 18
- Requires establishing policies and procedures to manage and monitor compliance of third parties with Performance Standard 2
- Requires alternatives analysis in case of retrenchment
- Requires ongoing monitoring of primary supply chain
- Introduces "safety" trigger in primary supply chain

Performance Standard 3

- Changes name to "Resource Efficiency and Pollution Prevention"
- Introduces a resource efficiency concept for energy, water, and core material inputs
- Strengthens focus on energy efficiency and greenhouse gas measurement
- Reduces greenhouse gas emissions thresholds for reporting to IFC from 100,000 tons CO_2 to 25,000 tons of CO_2 per year
- Requires determination of accountability with regards to historical pollution
- Introduces concept of "duty of care" for hazardous waste disposal

Performance Standard 4

- Considers risks to communities associated with use, and/or alteration of natural resources and climate change through an ecosystems approach

Performance Standard 5

- Extends scope of application to restrictions on land use
- Strengthens requirements regarding consultations
- Introduces a requirement for a completion audit under certain circumstances

Performance Standard 6

- Changes name to "Biodiversity Conservation and Sustainable Management of Living Natural Resources"
- Clarifies definitions of and requirements for various types of habitats
- Introduces stronger requirements for biodiversity offsets
- Introduces specific requirements for plantations and natural forests
- Introduces specific requirements for management of renewable natural resources
- Strengthens supply chain scope

Performance Standard 7

- Expands consideration of Indigenous Peoples' specific circumstances in developing mitigation measures and compensation
- Introduces requirement for land acquisition due diligence with regards to lands subject to traditional ownership or under customary use
- Introduces the concept of Free, Prior, and Informed Consent under certain circumstances

Performance Standard 8

- Requires clients to allow access to cultural sites

ANNEX B

Updated Sustainability Policy and Performance Standards

Highlights of Material Changes

This annex contains IFC's updated Policy and Performance Standards on Environmental and Social Sustainability. Material changes in the updated Policy and Performance Standards have been highlighted to allow easy comparison with IFC's 2006 Policy and Performance Standards. Other, non-material changes reflect clarifications and minor edits, and are not highlighted in this annex.

More detailed marked up versions in track change mode of these documents are available upon request, comparing the final version of the documents against the 2006 Policies and Performance Standards. Separate documents comparing the final version against the draft updated Policy and Performance Standards discussed by CODE on December 15, 2010 and approved for external consultations, are similarly available upon request.

International Finance Corporation

April 14, 2011

Policy on Environmental and Social Sustainability

January 1, 2012

I. Purpose of this Policy

1. IFC strives for positive development outcomes in the activities it supports in developing countries. These activities include (i) investments financed directly by IFC; (ii) investments implemented through financial intermediaries (FIs) or managed by IFC's Asset Management Company or any other IFC subsidiary, as well as investments funded in part or in whole by donors; and (iii) advisory services. IFC believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which IFC pursues and expects to achieve through the application of this Policy on Environmental and Social Sustainability (the Sustainability Policy or the Policy), and a comprehensive set of environmental and social Performance Standards.

2. Through this Policy, IFC puts into practice its commitments to environmental and social sustainability. These commitments are based on IFC's mission and mandate, as presented in section II of this Policy. Translating these commitments into successful outcomes depends on the joint efforts of IFC, its clients, and, in many cases, that of third parties. Consistent with these commitments, IFC carries out the actions described in section III of this Policy, including its responsibility to conduct environmental and social due diligence of activities proposed for its support.

3. Activities supported and financed by IFC include a wide range of investment and advisory products. Investment products with longer tenor include (i) direct lending to private sector companies (including corporate and project finance); (ii) lending to various types of FIs as well as through funds and facilities; (iii) minority equity stakes in companies, including in financial institutions; and (iv) guarantee facilities, municipal finance, as well as investments managed by IFC's Asset Management Company or any other IFC subsidiary. Investment products with shorter tenor include short-term loans, guarantees, and trade finance products, with maturities of up to three years. Proposed investments that are determined to have moderate to high levels of environmental and/or social risk,[1] or the potential for adverse environmental and/or social impacts[2] will be carried out in accordance with the requirements of the Performance Standards.

4. Advisory products include technical, financial and/or regulatory advice, project structuring as well as training to companies, industries, and governments. Each advisory activity is different in focus and scope. An advisory activity delivered to government clients may include advice on how to improve the investment climate or how to structure bankable public-private partnerships, while advice to companies and financial institutions may help them sharpen their competitive edge, improve corporate governance, or help them become more sustainable. Within the scope of an agreed advisory activity, all advice and training will be consistent with the Performance Standards.

5. The Performance Standards consist of the following:

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
Performance Standard 2: Labor and Working Conditions
Performance Standard 3: Resource Efficiency and Pollution Prevention
Performance Standard 4: Community Health, Safety, and Security

[1] Environmental and social risk is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.

[2] Environmental and social impacts refer to any change, potential or actual, to (i) the physical, natural, or cultural environment, and (ii) impacts on surrounding community and workers, resulting from the business activity to be supported.

Performance Standard 5: Land Acquisition and Involuntary Resettlement
Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
Performance Standard 7: Indigenous Peoples
Performance Standard 8: Cultural Heritage

6. These Performance Standards help IFC investment and advisory clients manage and improve their environmental and social performance through a risk and outcomes based approach. The desired outcomes are described in the objectives of each Performance Standard, followed by specific requirements to help clients achieve these outcomes through means that are appropriate to the nature and scale of the activity and commensurate with the level of environmental and social risks and/or impacts. Central to these requirements is the application of a mitigation hierarchy to anticipate and avoid adverse impacts on workers, communities, and the environment, or where avoidance is not possible, to minimize, and where residual impacts remain, compensate/offset for the risks and impacts, as appropriate. IFC believes that the Performance Standards also provide a solid base on which clients may increase the overall sustainability of their operations, identify new opportunities to grow their business, and build their competitive advantage in the marketplace.

7. While managing environmental and social risks and impacts in a manner consistent with the Performance Standards is the responsibility of the client, IFC seeks to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards. As a result, the outcome of IFC's environmental and social due diligence of a proposed business activity is an important factor in its approval process, and will determine the scope of the environmental and social conditions of IFC financing. By adhering to this Policy, IFC seeks to (i) enhance the predictability, transparency, and accountability of its actions and decision making; (ii) help clients manage their environmental and social risks and impacts and improve their performance; and (iii) enhance positive development outcomes on the ground.

II. IFC's Commitments

8. IFC's mission is to fight poverty with passion and professionalism for lasting results; to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors. IFC believes that sound economic growth, grounded in sustainable private investment, is crucial to poverty reduction. IFC investment and advisory services will be developed and delivered in accordance with IFC's mission, strategic pillars, and operational strategies.

9. Central to IFC's development mission are its efforts to carry out investment and advisory activities with the intent to "do no harm" to people and the environment, to enhance the sustainability of private sector operations and the markets they work in, and to achieve positive development outcomes. IFC is committed to ensuring that the costs of economic development do not fall disproportionately on those who are poor or vulnerable, that the environment is not degraded in the process, and that renewable natural resources are managed sustainably. IFC believes that the client's regular engagement with stakeholders about matters that directly affect them plays an important role in avoiding or minimizing risks and impacts to people and the environment. IFC also recognizes the importance of supporting sector-wide market transformation initiatives that are consistent with sustainable development objectives.

10. IFC recognizes that climate change is a serious global challenge and that climate-related impacts may impede economic and social well-being and development efforts. Working with the private sector and other parties to address climate change is therefore a strategic priority for IFC. Given the importance of the private sector's role in the reduction of greenhouse gas (GHG) emissions, IFC will engage in innovative investments and advisory services to support climate-friendly solutions and opportunities for business. IFC will also support adaptation measures that promote sustainable investments.

11. IFC support for low-carbon economic development is one dimension of a balanced approach to development, including supporting access to modern, clean, and reliable energy services. IFC pursues this objective through the use and development of relevant products, instruments, markets, and advisory services as well as through the adoption of appropriate technologies, processes, and practices in the activities it supports. IFC also recognizes the importance of ecosystem services and their role in climate change mitigation as well as adaptation. It is committed to minimizing business activities-related impacts on areas providing such services. IFC, in its efforts to support its climate-related commitments, will build on its experience in energy efficiency, cleaner production, renewable energy, and carbon markets as well as in the development of GHG accounting and approaches to climate change risk assessment, to produce instruments and develop practices that allow its clients to consider climate-related risks and opportunities in their investment decisions.[3] Finally, as the practice and tools for GHG accounting are mainstreamed, IFC will require its clients to include GHG emissions in their regular reporting to IFC in accordance with the Performance Standard 3 quantification threshold. This will allow IFC to quantify, manage and report on the carbon footprint of its direct investment portfolio in accordance with the emerging state of practice on accounting and reporting.

12. IFC recognizes the responsibility of business to respect human rights,[4] independently of the state duties to respect, protect, and fulfill human rights. This responsibility means to avoid infringing on the human rights of others and to address adverse human rights impacts business may cause or contribute to. Meeting this responsibility also means creating access to an effective grievance mechanism that can facilitate early indication of, and prompt remediation of various project-related grievances. IFC's Performance Standards support this responsibility of the private sector. Each of the Performance Standards has elements related to human rights dimensions that businesses may face in the course of their operations. Consistent with this responsibility, IFC undertakes due diligence of the level and quality of the risks and impacts identification process carried out by its clients against the requirements of the Performance Standards, informed by country, sector, and sponsor knowledge.

13. IFC believes that women have a crucial role in achieving sound economic growth and poverty reduction. They are an essential part of private sector development. IFC expects its clients to minimize gender-related risks from business activities and unintended gender differentiated impacts. Recognizing that women are often prevented from realizing their economic potential because of gender inequity, IFC is committed to creating opportunities for women through its investment and advisory activities.

14. IFC seeks to provide accurate and timely information regarding its investment and advisory activities as well as more general institutional information in accordance with its Access to

[3] The Sustainability Policy supports the implementation of the 2008 World Bank Group's "Strategic Framework for Development and Climate Change."

[4] For purposes of this policy, IFC will be guided by the International Bill of Human Rights and the eight core conventions of the International Labour Organization.

Information Policy. IFC also recognizes the importance of disclosure of information, both for itself and its clients, as a means of managing environmental, social, and governance risks.

15. In order to accomplish its mission and achieve its commitments, IFC endeavors to collaborate with clients who identify and manage environmental and social risks and who pursue environmental and social opportunities and outcomes in their business activities with a view to continually improving their sustainability performance. IFC recognizes the relationship between a strong culture of corporate integrity and governance, and sustainability performance, and that a company's management and board of directors play important roles in driving risk management and sustainable growth. IFC believes that this approach helps improve the financial, social, and environmental sustainability of investments, and enhances the public trust in its operations.

16. IFC offers specifically targeted advisory services, working at the company, sector, and state levels to contribute to the development of inclusive, sustainable, and efficient markets. While such services vary across countries and regions, a common feature is the intent to promote broad uptake of good environmental and social performance in business decisions and operations, a focus on cost efficiency in delivery, and consistency in impact measurement. These services may involve individual clients or groups of clients including FIs as well as companies in infrastructure or manufacturing sectors.

17. IFC has made a commitment to manage the footprint associated with its internal operations. Through its corporate Footprint Program, IFC makes sustainability an integral part of its day-to-day work in IFC offices around the world, and continually improves the environmental performance of its internal business operations. This commitment includes pursuing best practices in environmental and social management with the objective of achieving carbon neutrality of its global internal business operations, and providing a positive social contribution to local communities through outreach efforts. IFC raises staff awareness of their role in fulfilling this commitment, and on relevant sustainability issues and reports both internally and externally on the Footprint Program's achievements.

18. Finally, IFC is committed to notifying countries potentially affected by the transboundary effects of proposed business activities, so they can determine whether the proposed business activity has the potential for causing adverse effects through air pollution or deprivation of water from, or pollution of international waterways.

III. IFC's Roles and Responsibilities

19. IFC assumes several roles and responsibilities under this Policy. With respect to any particular activity, the level of IFC's engagement is determined by the nature and scope of the proposed investment or advisory activity, as well as the specific circumstances of the collaboration and relationship with the client. IFC considers the risks and impacts of the proposed investment or advisory activity, and whether and how such investment or advisory activity can be expected to contribute to the development of the host country and to broadly benefit its relevant stakeholders in economic, social, and/or environmental terms. There are several types of activities that IFC does not support, either through its investments or advisory services. These activities are set out in the IFC Exclusion List.

Environmental and Social Due Diligence

Overall Approach for Investment Activities

20. Environmental and social due diligence applies to all IFC investment activities.

21. IFC's environmental and social due diligence is integrated into IFC's overall due diligence of the business activity under consideration, including the review of financial and reputational risks. IFC weighs the costs and benefits of proposed business activities and articulates its rationale and specific conditions for the proposed activity. These are provided to IFC's Board of Directors when the investment activity is presented for approval.

22. IFC will only finance investment activities that are expected to meet the requirements of the Performance Standards within a reasonable period of time. Persistent delays in meeting these requirements can lead to loss of financial support from IFC.

23. At times, the client's ability to achieve environmental or social outcomes consistent with the Performance Standards will be dependent on third party actions. A third party may be a government agency in a regulator capacity or contract party, a contractor or primary supplier with whom the business activity has a substantial involvement, or an operator of an associated facility (as defined in Performance Standard 1). IFC, as part of its own due diligence process, will review clients' identification of third party risks, and will determine whether such risks are manageable, and if so under what conditions, so as to create outcomes consistent with the Performance Standards. Certain risks may require IFC to refrain from supporting the proposed business activity.

24. IFC's agreements pertaining to the financing of clients' activities include specific provisions with which clients undertake to comply. These include complying with the applicable requirements of the Performance Standards and specific conditions included in action plans, as well as relevant provisions for environmental and social reporting, and supervision visits by IFC staff or representatives, as appropriate. If the client fails to comply with its environmental and social commitments as expressed in the legal agreements and associated documents, IFC will work with the client to bring it back into compliance , and if the client fails to reestablish compliance, IFC will exercise its rights and remedies, as appropriate.

25. IFC requires that clients inform IFC when there is a material change[5] in their businesses or when they plan to enter into a new business area that is materially different from what was represented when IFC obtained Board approval. In such circumstances, IFC will assess whether the new business area poses environmental and/or social risks and/or impacts, and if so, IFC will require the client to adjust its Environmental and Social Management System (ESMS) in a manner consistent with (i) potential environmental and social risks and impacts associated with material changes of these new businesses; (ii) this policy; and (iii) applicable requirements of the Performance Standards. IFC may request the client to provide results of its environmental and social due diligence for activities financed in these new businesses areas.

Direct Investments

26. IFC's environmental and social due diligence is commensurate with the nature, scale, and stage of the business activity, and with the level of environmental and social risks and impacts. IFC conducts due diligence of all new direct investments that are being considered for IFC support, whether in the design, construction, or operational stage. Where the proposed use of funds is not fully defined at the time of the due diligence, IFC's environmental and social due diligence may be expanded to cover other business activities of the client as part of IFC's risk management considerations. Where there are significant environmental or social impacts associated with the business activity, including past or present adverse impacts caused by others, IFC works with its client to determine possible remediation measures.

[5] Material change may include change in environmental and/or social risk profile.

27. IFC investment timing in relation to a client's business activity varies from transaction to transaction. IFC's engagement often occurs well after the business activity is conceived, with the site selected and development started. In such cases, IFC will review the ESMS and risk management practices already in place, as well as the environmental and social assessment and community engagement undertaken by the client and/or any third party before IFC's consideration of the investment. When IFC's involvement occurs in the early stages of investment design, IFC is able to support the client more effectively in anticipating and addressing specific risks and impacts; in identifying opportunities; and in managing these throughout the life of the investment.

28. Environmental and social due diligence typically includes the following key components: (i) reviewing all available information, records, and documentation related to the environmental and social risks and impacts of the business activity; (ii) conducting site inspections and interviews of client personnel and relevant stakeholders, where appropriate; (iii) analyzing the business activity's environmental and social performance in relation to the requirements of the Performance Standards and provisions of the World Bank Group Environmental, Health and Safety Guidelines or other internationally recognized sources, as appropriate; and (iv) identifying any gaps therewith, and corresponding additional measures and actions beyond those identified by the client's in-place management practices. To ensure the business activity meets the Performance Standards, IFC makes these supplemental actions (Environmental and Social Action Plan) necessary conditions of IFC's investment.

29. In cases of business activities with defined use of proceeds and a clearly defined environmental and social footprint, IFC's requirements regarding environmental and social risk management will apply to the business activities financed from funds provided by IFC. However, IFC will encourage its clients to manage environmental and social risks consistently in all their operations.

30. In cases where the business activity to be financed is likely to generate potential significant adverse impacts on communities (i.e., Affected Communities) or is likely to generate potential adverse impacts on Indigenous Peoples, IFC expects clients to engage in a process of Informed Consultation and Participation (ICP).[6] In such cases, through its own investigation, IFC will determine whether the client's community engagement is one that involves ICP and enables the participation of the Affected Communities, leading to Broad Community Support for the business activity by Affected Communities. Broad Community Support is a collection of expressions by Affected Communities, through individuals or their recognized representatives, in support of the proposed business activity. There may be BCS even if some individuals or groups object to the business activity. After the Board approval of the business activity, IFC continues to monitor the client's community engagement process as part of its portfolio supervision.

31. In addition, where a proposed business activity triggers the Performance Standard 7 requirement of Free, Prior, and Informed Consent of Indigenous Peoples, IFC will undertake an in-depth review of the process conducted by the client as part of its environmental and social due diligence.

Investments Through Financial Intermediaries

32. IFC is committed to supporting sustainable capital market and financial sector development. To this end, IFC has developed a significant program of indirect investments that is implemented through FIs. Through this program, IFC helps strengthen domestic capital and financial markets that support economic development at a scale of activity that is smaller than would be possible through

[6] In accordance with Performance Standard 1.

direct IFC investments. IFC's FI clients are engaged in a diverse range of activities consisting largely of medium and small enterprise finance, microfinance, leasing, trade finance, guarantees, housing finance, consumer finance, and in some cases corporate and project finance and equity, each with its own environmental and social risk profile.

33. Through its engagement with FIs, IFC supports the capacity development of the banking and financial sector to manage environmental and social risks. This is achieved in part through the development and implementation of an ESMS, and by enhancing FIs' in-house capacity for the day-to-day management of portfolio risks, including environmental and social risk. Environmental and social risk management is part of the responsibilities that FIs assume. IFC requires FIs to carry out individual transaction appraisal and monitoring as well as overall portfolio management in accordance with the environmental and social risk profile of its activities and that of individual transactions.

34. In order to appropriately identify the environmental and social risks related to FI investments during the appraisal process, IFC reviews the existing portfolio and prospective business activities of its FI clients to identify activities where the FIs and IFC could be exposed to risks as a result of their investments, and defines requirements for managing these risks. IFC reviews the implementation capacity of FIs as well as their ESMS, as required by Performance Standard 1.

35. IFC's requirements and the scope of their application for FI clients depend on IFC's investment type, the use of proceeds from the IFC investment, and the level of risk associated with the FI's portfolio. In particular:

- FI clients are required to develop and operate an ESMS that is commensurate with the level of environmental and social risks in its portfolio, and prospective business activities. The ESMS[7] should incorporate relevant principles of Performance Standard 1;
- FI clients are required to apply relevant aspects of Performance Standard 2 to their workers;
- FIs will apply the IFC Exclusion List and follow respective national law; and
- FIs with portfolio and/or prospective business activities that present moderate to high environmental or social risks (i.e., Category FI-1 and FI-2) will require higher risk business activities they support to apply relevant requirements of the Performance Standards.

36. In cases where IFC's investment is targeted to a specified end use (e.g., credit lines for microfinance), IFC's requirements regarding environmental and social risk management as described in paragraph 33 will cover the specified end use only. However, if the FI supports similar activities from its own account, then IFC's requirements will apply to the entire asset class. IFC will also encourage its clients to manage environmental and social risks throughout their entire portfolio.

37. In cases where IFC provides equity or financial support of a general purpose, without a specified end use, IFC requirements regarding environmental and social risk management as described in paragraph 33 will apply to the entire portfolio of the FI that is originated from the time IFC became a shareholder or investor.

Overall Approach for Advisory Services

38. IFC's environmental and social due diligence is integrated into IFC's overall due diligence of the advisory activity under consideration, including the review of financial and reputational risks. IFC weighs the costs and benefits of proposed advisory activities and articulates its rationale and

[7] In the case of FIs categorized as FI-3, this will be screening of business activities they support against IFC Exclusion List and national law.

project-specific conditions for the proposed activity. These are provided to IFC management when the advisory activity is presented for approval.

39. IFC screens each advisory activity against the IFC Exclusion List. IFC also reviews each proposed advisory activity for environmental and social risk. Should the review result in the identification of environmental and/or social risks, the advice provided to clients shall be consistent with the Performance Standards as a framework of good international industry practice (GIIP)[8] in environmental and social risk management. IFC also recognizes that it can work with advisory clients to achieve positive improvements in environmental and social performance, and help clients move towards greater consistency with the Performance Standards, even if they are not able to meet their full intent during the life of the advisory activity.

Environmental and Social Categorization

40. As part of the review of environmental and social risks and impacts of a proposed investment, IFC uses a process of environmental and social categorization to reflect the magnitude of risks and impacts. The resulting category also specifies IFC's institutional requirements for disclosure in accordance with IFC's Access to Information Policy. These categories are:

- **Category A**: Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- **Category B**: Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
- **Category C**: Business activities with minimal or no adverse environmental or social risks and/or impacts.
- **Category FI**: Business activities involving investments in FIs or through delivery mechanisms involving financial intermediation. This category is further divided into:
  - FI–1: when an FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
  - FI–2: when an FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
  - FI–3: when an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

41. IFC recognizes that the various investment activities it considers for financing have different levels of information available at the time of IFC's due diligence. In some cases, the use of proceeds from IFC's investment, and the associated environmental and social footprint are known and largely understood at the time of IFC's decision to invest, as is typical in traditional project finance. In other

[8] Defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally.

cases however, IFC's investment is not directed at specific physical assets (such as working capital finance and some types of equity investments) or will lead to future investments (such as some FI operations or investment facilities), and the use of proceeds and the environmental and social footprint are therefore largely indeterminate at the time of IFC's decision to invest.

42. Where the use of proceeds of IFC financing and the associated environmental and social footprint of the business activity are known at the time of the decision to invest, IFC will determine the business activity's environmental and social category based on its potential environmental and social risks and/or impacts. For an existing operation, this will include its known operational impacts. In its determination of the risk category, IFC will also consider inherent environmental and social risks[9] related to a particular sector as well as the context of the business activity's setting.

43. Where the use of proceeds of IFC financing and the environmental and social footprint of the business activity are not fully specified at the time of IFC due diligence, or IFC invests in a pre-development phase of a business activity, IFC will determine the category based on risks inherent to the particular sector and the context of the business activity's setting. Furthermore, in such circumstances, there is often very limited information available on the physical footprint and associated risks and/or impacts for consideration by IFC's Board of Directors because the relevant studies and assessments and/or the process of consultation, where required, are in very early stages or have not yet been launched. In such cases IFC will complete its environmental and social due diligence after Board approval on the basis of relevant environmental and social documentation as well as evidence of consultation, where required, provided by the client once the footprint and risks and/or impacts are better understood. The outcome of the due diligence will inform IFC's decisions going forward. Disclosure of business activity-related information post-Board commitment will be done in accordance with the requirements of the Access to Information Policy.

44. For FI investments where IFC's funds are traceable and intended for a specified end use, IFC will determine the environmental and social category based on risks associated with the specified end use. Where IFC's funds provide general financial support to an FI (such as equity in a Bank) the entire portfolio of the FI will be considered in the determination of the category. In its determination of FI–1, FI–2, or FI–3 designation, IFC will consider tenor, size, and type of investments as well as the sectoral exposure of investments.

Supervision

45. IFC carries out the following actions to monitor its investments and advisory activities as part of its portfolio supervision program:

Direct Investments

- Implement a regular program of supervision for business activities with environmental and social risks and/or impacts in accordance with the requirements of IFC's Environmental and Social Review Procedures.
- Review implementation performance, as reported in the client's Annual Monitoring Report and updates on the Environmental and Social Action Plan,[10] against the environmental and social conditions for investment and the client's commitments. Where relevant, identify and review opportunities for further improving client performance on the sustainability front.

[9] Inherent environmental and social risk is the environmental and social risk related to generic aspects of an industrial sector or commercial activity without consideration of management or mitigation measures.

[10] Not all projects have an Environmental and Social Action Plan or reporting requirements (e.g., Category C projects and some equity investments).

- If changed business activity circumstances might result in altered or adverse environmental or social impacts, IFC will work with the client to address them.
- If the client fails to comply with its environmental and social commitments, as expressed in the environmental and social conditions for investment, IFC will work with the client to bring it back into compliance to the extent feasible, and if the client fails to reestablish compliance, IFC will exercise remedies as appropriate.

Investments Through Financial Intermediaries

- Implement a regular program of supervision of FI investments with environmental and social risks and/or impacts in accordance with the requirements of IFC's Environmental and Social Review Procedures.
- To determine the effectiveness of an FI's ESMS, IFC will periodically review the process and the results of the environmental and social due diligence conducted by the FI for its investments. In addition, as part of its supervision efforts, IFC periodically reviews a sample of other FI investments, especially for business activities with significant environmental and social risks. IFC supervision may include visits at the FI level, as well as to recipients of FI loans/investments, particularly high risk subprojects. The frequency and focus of supervision visits is commensurate with the identified risks. IFC works with its FI clients to help them address any shortcomings in their ESMS.

Advisory Activities

- IFC monitors implementation progress of its advisory activities on an ongoing basis, with formal supervision reporting undertaken semi-annually. This process includes the review and update of all key risks and issues, including environmental and social aspects identified at the advisory activity approval stage or through previous supervision reports.

IV. Collaboration with Partners

Collaboration and Liaison with Public and Private Sector Institutions

46. IFC, as the private sector arm of the World Bank Group, collaborates with an extensive network of private and public sector stakeholders to promote a dialogue on sustainable private sector development in developing countries. Examples of IFC's collaboration and liaison role include:

- Setting standards and supporting sector-wide standard-setting initiatives focused on management of environmental and social risks and impacts by private sector companies and financial institutions;
- Identifying and disseminating private sector GIIP in the area of financial, environmental and social sustainability;
- Promoting sustainable financial markets in developing countries through a dialogue and engagement with Equator Principles Financial Institutions and financial market participants;
- Promoting sustainable financial markets in developing countries through a dialogue with central banks and regulatory bodies on enabling the business environment for environmental and social risk management by financial institutions as well as the engagement with individual financial institutions on the benefits of environmental and social risk management;
- Leading on environmental and social matters in syndicated loans and joint projects with other financial institutions, and promoting close coordination and harmonization among the participating institutions;
- Liaising and coordinating with the World Bank and MIGA, as appropriate, on advisory products provided to the public sector;

- Liaising with relevant international financial institutions (IFIs) and/or national agencies on strategic, regional, and/or sectoral environmental assessment, where appropriate, for private sector business activities with significant environmental or social issues; and
- In case of co-investments, cooperating with other IFIs to reach a common understanding on the findings of their respective due diligence processes and on the supplementary environmental and social actions required from the client.

Additional Reference and Supporting Documents for Policy Implementation

47. In addition to this Policy, IFC makes reference to other materials to assist its staff and clients, including:[11]

- IFC's Access to Information Policy, which details IFC's institutional requirements for disclosure of information;
- IFC's Performance Standards;
- IFC's Performance Standards' Guidance Notes, which are accompanying documents to the Performance Standards that offer helpful guidance on the requirements contained in the Performance Standards (including reference materials) as well as good sustainability practices to improve business performance and development outcomes;
- The World Bank Group's Environmental, Health and Safety Guidelines on sector and industry practices and performance levels consistent with Performance Standard 3;
- IFC's Environmental and Social Review Procedures, which document internal procedures for environmental and social due diligence; and
- Good practice notes, handbooks, and other materials that provide examples of GIIP and reference information about these practices.

V. Sector Specific Initiatives on Governance and Disclosure

Sector-Specific Initiatives on Governance and Disclosure

48. In the extractive industries and infrastructure sectors in particular, where a business activity can have potentially broader implications for the public at large, IFC recognizes the importance of assessment of governance risks and disclosure of information as a means to manage such risks. Accordingly, subject to applicable legal restrictions, IFC has the following sector-specific initiatives on disclosure of business activity-related information, in addition to the disclosure requirements specified in Performance Standard 1.

Extractive Industry Projects

49. When IFC invests in extractive industry business activities (oil, gas, and mining), IFC assesses the governance risks to expected benefits. The expected net benefits and the risks to these business activities as a result of weak governance are reviewed. Where the risks supersede benefits, IFC does not support such projects. IFC also promotes transparency of revenue payments from extractive industry projects to host governments. Accordingly, IFC requires that clients publicly disclose their material project payments to the host government (such as royalties, taxes, and profit sharing). Such disclosure shall be made on a project basis or on a corporate basis, depending on what is most appropriate given country taxation and corporate arrangements.

50. IFC will encourage governments and corporations to make extractive industry contracts public, and two years from the date of its Board approval of this policy it will require that, in the case of

[11] These materials are available at: (www.ifc.org/sustainability)

extractive industries projects it finances, the principal contract with government that sets out the key terms and conditions under which a resource will be exploited, and any significant amendments to that contract, be public. IFC will allow the redaction of commercially sensitive information that is not essential to understand the terms and conditions under which the resource is developed.

51. IFC may accept in lieu of contract disclosure, the publication by the client of a summary of the key terms and conditions under which the resource is being developed. This summary shall include the life of the contract; any material payments due to government made under it; other material fiscal terms and conditions; and a summary of any significant stabilization clauses.

52. In cases where IFC provides financing for multiple corporate purposes rather than financing one specific project, the requirement for contract disclosure shall only apply to the principal investment for which funds are to be used.

Infrastructure Projects

53. When IFC invests in projects involving the final delivery of essential services, such as the retail distribution of water, electricity, piped gas, and telecommunications, to the general public under monopoly conditions, IFC encourages the public disclosure of information relating to household tariffs and tariff adjustment mechanisms, service standards, investment obligations, and the form and extent of any ongoing government support. If IFC is financing the privatization of such distribution services, IFC also encourages the public disclosure of concession fees or privatization proceeds. Such disclosures may be made by the responsible government entity (such as the relevant regulatory authority) or by the client.

VI. Compliance Advisor/Ombudsman

54. IFC supports its clients in addressing environmental and social issues arising from their business activities by requiring them to set up and administer appropriate mechanisms and/or procedures to address related grievances and complaints from Affected Communities. In addition to these mechanisms and procedures, the role of administrative and/or legal procedures available in the host country should also be considered. Nonetheless, there may be cases where grievances and complaints from those affected by IFC-supported business activities are not fully resolved at the business activity level or through other established mechanisms.

55. Recognizing the importance of accountability and that the concerns and complaints of Affected Communities should be addressed in a manner that is fair, objective, and constructive, a mechanism has been established through the Compliance Advisor/Ombudsman (CAO) to enable individuals and communities affected by IFC-supported business activities to raise their concerns to an independent oversight authority.

56. The CAO is independent of IFC management and reports directly to the President of the World Bank Group. The CAO responds to complaints from those affected by IFC-supported business activities with the goal of enhancing environmental and social outcomes on the ground and fostering greater public accountability of IFC. The CAO works to resolve complaints using a flexible problem-solving approach through the CAO's dispute resolution arm. Through its compliance arm, the CAO oversees project-level audits of IFC's environmental and social performance in accordance with the CAO's operational guidelines.

57. Complaints may relate to any aspect of IFC-supported business activities that is within the mandate of the CAO. They can be made by any individual, group, community, entity, or other party affected or likely to be affected by the environmental or social impacts of an IFC-financed business activity. Complaints should be submitted to the CAO in writing to the address below:

Compliance Advisor/Ombudsman
International Finance Corporation
2121 Pennsylvania Avenue NW
Room F11K-232
Washington, DC 20433 USA

Tel: 1 202 458 1973
Fax: 1 202 522 7400
E-mail: cao-compliance@ifc.org

The CAO receives and addresses complaints in line with the criteria set out in its Operational Guidelines for the CAO which are available at: www.cao-ombudsman.org

Performance Standard 1
Assessment and Management of Environmental and Social Risks and Impacts

January 1, 2012

Introduction

1. Performance Standard 1 underscores the importance of managing environmental and social performance throughout the life of a project. An effective Environmental and Social Management System (ESMS) is a dynamic and continuous process initiated and supported by management, and involves engagement between the client, its workers, local communities directly affected by the project (the Affected Communities) and, where appropriate, other stakeholders.[1] Drawing on the elements of the established business management process of "plan, do, check, and act," the ESMS entails a methodological approach to managing environmental and social risks[2] and impacts[3] in a structured way on an ongoing basis. A good ESMS appropriate to the nature and scale of the project promotes sound and sustainable environmental and social performance, and can lead to improved financial, social, and environmental outcomes.

2. At times, the assessment and management of certain environmental and social risks and impacts may be the responsibility of the government or other third parties over which the client does not have control or influence.[4] Examples of where this may happen include: (i) when early planning decisions are made by the government or third parties which affect the project site selection and/or design; and/or (ii) when specific actions directly related to the project are carried out by the government or third parties such as providing land for a project which may have previously involved the resettlement of communities or individuals and/or leading to loss of biodiversity. While the client cannot control these government or third party actions, an effective ESMS should identify the different entities involved and the roles they play, the corresponding risks they present to the client, and opportunities to collaborate with these third parties in order to help achieve environmental and social outcomes that are consistent with the Performance Standards. In addition, this Performance Standard supports the use of an effective grievance mechanism that can facilitate early indication of, and prompt remediation for those who believe that they have been harmed by a client's actions.

3. Business should respect human rights, which means to avoid infringing on the human rights of others and address adverse human rights impacts business may cause or contribute to. Each of the Performance Standards has elements related to human rights dimensions that a project may face in the course of its operations. Due diligence against these Performance Standards will enable the client to address many relevant human rights issues in its project.

Objectives

- To identify and evaluate environmental and social risks and impacts of the project.
- To adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize,[5] and, where residual impacts remain, compensate/offset for risks and impacts to workers, Affected Communities, and the environment.

[1] Other stakeholders are those not directly affected by the project but that have an interest in it. These could include national and local authorities, neighboring projects, and/or nongovernmental organizations.

[2] Environmental and social risk is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.

[3] Environmental and social impacts refer to any change, potential or actual, to (i) the physical, natural, or cultural environment, and (ii) impacts on surrounding community and workers, resulting from the business activity to be supported.

[4] Contractors retained by, or acting on behalf of the client(s), are considered to be under direct control of the client and not considered third parties for the purposes of this Performance Standard.

[5] Acceptable options to minimize will vary and include: abate, rectify, repair, and/or restore impacts, as appropriate. The risk and impact mitigation hierarchy is further discussed and specified in the context of Performance Standards 2 through 8, where relevant.

- To promote improved environmental and social performance of clients through the effective use of management systems.
- To ensure that grievances from Affected Communities and external communications from other stakeholders are responded to and managed appropriately.
- To promote and provide means for adequate engagement with Affected Communities throughout the project cycle on issues that could potentially affect them and to ensure that relevant environmental and social information is disclosed and disseminated.

Scope of Application

4. This Performance Standard applies to business activities with environmental and/or social risks and/or impacts. For the purposes of this Performance Standard, the term "project" refers to a defined set of business activities, including those where specific physical elements, aspects, and facilities likely to generate risks and impacts, have yet to be identified.[6] Where applicable, this could include aspects from the early developmental stages through the entire life cycle (design, construction, commissioning, operation, decommissioning, closure or, where applicable, post-closure) of a physical asset.[7] The requirements of this Performance Standard apply to all business activities unless otherwise noted in the specific limitations described in each of the paragraphs below.

Requirements

Environmental and Social Assessment and Management System

5. The client, in coordination with other responsible government agencies and third parties as appropriate,[8] will conduct a process of environmental and social assessment, and establish and maintain an ESMS appropriate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impacts. The ESMS will incorporate the following elements: (i) policy; (ii) identification of risks and impacts; (iii) management programs; (iv) organizational capacity and competency; (v) emergency preparedness and response; (vi) stakeholder engagement; and (vii) monitoring and review.

Policy

6. The client will establish an overarching policy defining the environmental and social objectives and principles that guide the project to achieve sound environmental and social performance.[9] The policy provides a framework for the environmental and social assessment and management process, and specifies that the project (or business activities, as appropriate) will comply with the applicable laws and regulations of the jurisdictions in which it is being undertaken, including those laws implementing host country obligations under international law. The policy should be consistent with the principles of the Performance Standards. Under some circumstances, clients may also subscribe

[6] For example, corporate entities which have portfolios of existing physical assets, and/or intend to develop or acquire new facilities, and investment funds or financial intermediaries with existing portfolios of assets and/or which intend to invest in new facilities.

[7] Recognizing that this Performance Standard is used by a variety of financial institutions, investors, insurers, and owner/operators, each user should separately specify the business activities to which this Performance Standard should apply.

[8] That is, those parties legally obligated and responsible for assessing and managing specific risks and impacts (e.g., government-led resettlement).

[9] This requirement is a stand-alone, project-specific policy and is not intended to affect (or require alteration of) existing policies the client may have defined for non-related projects, business activities, or higher-level corporate activities.

to other internationally recognized standards, certification schemes, or codes of practice and these too should be included in the policy. The policy will indicate who, within the client's organization, will ensure conformance with the policy and be responsible for its execution (with reference to an appropriate responsible government agency or third party, as necessary). The client will communicate the policy to all levels of its organization.

Identification of Risks and Impacts

7. The client will establish and maintain a process for identifying the environmental and social risks and impacts of the project (see paragraph 18 for competency requirements). The type, scale, and location of the project guide the scope and level of effort devoted to the risks and impacts identification process. The scope of the risks and impacts identification process will be consistent with good international industry practice,[10] and will determine the appropriate and relevant methods and assessment tools. The process may comprise a full-scale environmental and social impact assessment, a limited or focused environmental and social assessment, or straightforward application of environmental siting, pollution standards, design criteria, or construction standards.[11] When the project involves existing assets, environmental and/or social audits or risk/hazard assessments can be appropriate and sufficient to identify risks and impacts. If assets to be developed, acquired or financed have yet to be defined, the establishment of an environmental and social due diligence process will identify risks and impacts at a point in the future when the physical elements, assets, and facilities are reasonably understood. The risks and impacts identification process will be based on recent environmental and social baseline data at an appropriate level of detail. The process will consider all relevant environmental and social risks and impacts of the project, including the issues identified in Performance Standards 2 through 8, and those who are likely to be affected by such risks and impacts.[12] The risks and impacts identification process will consider the emissions of greenhouse gases, the relevant risks associated with a changing climate and the adaptation opportunities, and potential transboundary effects, such as pollution of air, or use or pollution of international waterways.

8. Where the project involves specifically identified physical elements, aspects, and facilities that are likely to generate impacts, environmental and social risks and impacts will be identified in the context of the project's area of influence. This area of influence encompasses, as appropriate:

- The area likely to be affected by: (i) the project[13] and the client's activities and facilities that are directly owned, operated or managed (including by contractors) and that are a component of the project;[14] (ii) impacts from unplanned but predictable developments caused by the project that may occur later or at a different location; or (iii) indirect project impacts on biodiversity or on ecosystem services upon which Affected Communities' livelihoods are dependent.

[10] Defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally.

[11] For greenfield developments or large expansions with specifically indentified physical elements, aspects, and facilities that are likely to generate potential significant environmental or social impacts, the client will conduct a comprehensive Environmental and Social Impact Assessment, including an examination of alternatives, where appropriate.

[12] In limited high risk circumstances, it may be appropriate for the client to complement its environmental and social risks and impacts identification process with specific human rights due diligence as relevant to the particular business.

[13] Examples include the project's sites, the immediate airshed and watershed, or transport corridors.

[14] Examples include power transmission corridors, pipelines, canals, tunnels, relocation and access roads, borrow and disposal areas, construction camps, and contaminated land (e.g., soil, groundwater, surface water, and sediments).

- Associated facilities, which are facilities that are not funded as part of the project and that would not have been constructed or expanded if the project did not exist and without which the project would not be viable.[15]
- Cumulative impacts[16] that result from the incremental impact, on areas or resources used or directly impacted by the project, from other existing, planned or reasonably defined developments at the time the risks and impacts identification process is conducted.

9. In the event of risks and impacts in the project's area of influence resulting from a third party's actions, the client will address those risks and impacts in a manner commensurate with the client's control and influence over the third parties, and with due regard to conflict of interest.

10. Where the client can reasonably exercise control, the risks and impacts identification process will also consider those risks and impacts associated with primary supply chains, as defined in Performance Standard 2 (paragraphs 27–29) and Performance Standard 6 (paragraph 30).

11. Where the project involves specifically identified physical elements, aspects and facilities that are likely to generate environmental and social impacts, the identification of risks and impacts will take into account the findings and conclusions of related and applicable plans, studies, or assessments prepared by relevant government authorities or other parties that are directly related to the project and its area of influence.[17] These include master economic development plans, country or regional plans, feasibility studies, alternatives analyses, and cumulative, regional, sectoral, or strategic environmental assessments where relevant. The risks and impacts identification will take account of the outcome of the engagement process with Affected Communities as appropriate.

12. Where the project involves specifically identified physical elements, aspects and facilities that are likely to generate impacts, and as part of the process of identifying risks and impacts, the client will identify individuals and groups that may be directly and differentially or disproportionately affected by the project because of their disadvantaged or vulnerable status.[18] Where individuals or groups are identified as disadvantaged or vulnerable, the client will propose and implement differentiated measures so that adverse impacts do not fall disproportionately on them and they are not disadvantaged in sharing development benefits and opportunities.

Management Programs

13. Consistent with the client's policy and the objectives and principles described therein, the client will establish management programs that, in sum, will describe mitigation and performance improvement measures and actions that address the identified environmental and social risks and impacts of the project.

[15] Associated facilities may include railways, roads, captive power plants or transmission lines, pipelines, utilities, warehouses, and logistics terminals.

[16] Cumulative impacts are limited to those impacts generally recognized as important on the basis of scientific concerns and/or concerns from Affected Communities. Examples of cumulative impacts include: incremental contribution of gaseous emissions to an airshed; reduction of water flows in a watershed due to multiple withdrawals; increases in sediment loads to a watershed; interference with migratory routes or wildlife movement; or more traffic congestion and accidents due to increases in vehicular traffic on community roadways.

[17] The client can take these into account by focusing on the project's incremental contribution to selected impacts generally recognized as important on the basis of scientific concern or concerns from the Affected Communities within the area addressed by these larger scope regional studies or cumulative assessments.

[18] This disadvantaged or vulnerable status may stem from an individual's or group's race, color, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status. The client should also consider factors such as gender, age, ethnicity, culture, literacy, sickness, physical or mental disability, poverty or economic disadvantage, and dependence on unique natural resources.

14. Depending on the nature and scale of the project, these programs may consist of some documented combination of operational procedures, practices, plans, and related supporting documents (including legal agreements) that are managed in a systematic way.[19] The programs may apply broadly across the client's organization, including contractors and primary suppliers over which the organization has control or influence, or to specific sites, facilities, or activities. The mitigation hierarchy to address identified risks and impacts will favor the avoidance of impacts over minimization, and, where residual impacts remain, compensation/offset, wherever technically[20] and financially feasible.[21]

15. Where the identified risks and impacts cannot be avoided, the client will identify mitigation and performance measures and establish corresponding actions to ensure the project will operate in compliance with applicable laws and regulations, and meet the requirements of Performance Standards 1 through 8. The level of detail and complexity of this collective management program and the priority of the identified measures and actions will be commensurate with the project's risks and impacts, and will take account of the outcome of the engagement process with Affected Communities as appropriate.

16. The management programs will establish environmental and social Action Plans,[22] which will define desired outcomes and actions to address the issues raised in the risks and impacts identification process, as measurable events to the extent possible, with elements such as performance indicators, targets, or acceptance criteria that can be tracked over defined time periods, and with estimates of the resources and responsibilities for implementation. As appropriate, the management program will recognize and incorporate the role of relevant actions and events controlled by third parties to address identified risks and impacts. Recognizing the dynamic nature of the project, the management program will be responsive to changes in circumstances, unforeseen events, and the results of monitoring and review.

Organizational Capacity and Competency

17. The client, in collaboration with appropriate and relevant third parties, will establish, maintain, and strengthen as necessary an organizational structure that defines roles, responsibilities, and authority to implement the ESMS. Specific personnel, including management representative(s), with clear lines of responsibility and authority should be designated. Key environmental and social responsibilities should be well defined and communicated to the relevant personnel and to the rest of the client's organization. Sufficient management sponsorship and human and financial resources will be provided on an ongoing basis to achieve effective and continuous environmental and social performance.

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[19] Existing legal agreements between the client and third parties that address mitigation actions with regard to specific impacts constitute part of a program. Examples are government-managed resettlement responsibilities specified in an agreement.

[20] Technical feasibility is based on whether the proposed measures and actions can be implemented with commercially available skills, equipment, and materials, taking into consideration prevailing local factors such as climate, geography, demography, infrastructure, security, governance, capacity, and operational reliability.

[21] Financial feasibility is based on commercial considerations, including relative magnitude of the incremental cost of adopting such measures and actions compared to the project's investment, operating, and maintenance costs, and on whether this incremental cost could make the project nonviable to the client.

[22] Action plans may include an overall Environmental and Social Action Plan necessary for carrying out a suite of mitigation measures or thematic action plans, such as Resettlement Action Plans or Biodiversity Action Plans. Action plans may be plans designed to fill in the gaps of existing management programs to ensure consistency with the Performance Standards, or they may be stand alone plans that specify the project's mitigation strategy. The "Action plan" terminology is understood by some communities of practice to mean Management plans, or Development plans. In this case, examples are numerous and include various types of environmental and social management plans.

18. Personnel within the client's organization with direct responsibility for the project's environmental and social performance will have the knowledge, skills, and experience necessary to perform their work, including current knowledge of the host country's regulatory requirements and the applicable requirements of Performance Standards 1 through 8. Personnel will also possess the knowledge, skills, and experience to implement the specific measures and actions required under the ESMS and the methods required to perform the actions in a competent and efficient manner.

19. The process of identification of risks and impacts will consist of an adequate, accurate, and objective evaluation and presentation, prepared by competent professionals. For projects posing potentially significant adverse impacts or where technically complex issues are involved, clients may be required to involve external experts to assist in the risks and impacts identification process.

Emergency Preparedness and Response

20. Where the project involves specifically identified physical elements, aspects and facilities that are likely to generate impacts, the ESMS will establish and maintain an emergency preparedness and response system so that the client, in collaboration with appropriate and relevant third parties, will be prepared to respond to accidental and emergency situations associated with the project in a manner appropriate to prevent and mitigate any harm to people and/or the environment. This preparation will include the identification of areas where accidents and emergency situations may occur, communities and individuals that may be impacted, response procedures, provision of equipment and resources, designation of responsibilities, communication, including that with potentially Affected Communities and periodic training to ensure effective response. The emergency preparedness and response activities will be periodically reviewed and revised, as necessary, to reflect changing conditions.

21. Where applicable, the client will also assist and collaborate with the potentially Affected Communities (see Performance Standard 4) and the local government agencies in their preparations to respond effectively to emergency situations, especially when their participation and collaboration are necessary to ensure effective response. If local government agencies have little or no capacity to respond effectively, the client will play an active role in preparing for and responding to emergencies associated with the project. The client will document its emergency preparedness and response activities, resources, and responsibilities, and will provide appropriate information to potentially Affected Community and relevant government agencies.

Monitoring and Review

22. The client will establish procedures to monitor and measure the effectiveness of the management program, as well as compliance with any related legal and/or contractual obligations and regulatory requirements. Where the government or other third party has responsibility for managing specific risks and impacts and associated mitigation measures, the client will collaborate in establishing and monitoring such mitigation measures. Where appropriate, clients will consider involving representatives from Affected Communities to participate in monitoring activities.[23] The client's monitoring program should be overseen by the appropriate level in the organization. For projects with significant impacts, the client will retain external experts to verify its monitoring information. The extent of monitoring should be commensurate with the project's environmental and social risks and impacts and with compliance requirements.

23. In addition to recording information to track performance and establishing relevant operational controls, the client should use dynamic mechanisms, such as internal inspections and audits, where relevant, to verify compliance and progress toward the desired outcomes. Monitoring will normally

[23] For example, participatory water monitoring.

include recording information to track performance and comparing this against the previously established benchmarks or requirements in the management program. Monitoring should be adjusted according to performance experience and actions requested by relevant regulatory authorities. The client will document monitoring results and identify and reflect the necessary corrective and preventive actions in the amended management program and plans. The client, in collaboration with appropriate and relevant third parties, will implement these corrective and preventive actions, and follow up on these actions in upcoming monitoring cycles to ensure their effectiveness.

24. Senior management in the client organization will receive periodic performance reviews of the effectiveness of the ESMS, based on systematic data collection and analysis. The scope and frequency of such reporting will depend upon the nature and scope of the activities identified and undertaken in accordance with the client's ESMS and other applicable project requirements. Based on results within these performance reviews, senior management will take the necessary and appropriate steps to ensure the intent of the client's policy is met, that procedures, practices, and plans are being implemented, and are seen to be effective.

Stakeholder Engagement

25. Stakeholder engagement is the basis for building strong, constructive, and responsive relationships that are essential for the successful management of a project's environmental and social impacts.[24] Stakeholder engagement is an ongoing process that may involve, in varying degrees, the following elements: stakeholder analysis and planning, disclosure and dissemination of information, consultation and participation, grievance mechanism, and ongoing reporting to Affected Communities. The nature, frequency, and level of effort of stakeholder engagement may vary considerably and will be commensurate with the project's risks and adverse impacts, and the project's phase of development.

Stakeholder Analysis and Engagement Planning

26. Clients should identify the range of stakeholders that may be interested in their actions and consider how external communications might facilitate a dialog with all stakeholders (paragraph 34 below). Where projects involve specifically identified physical elements, aspects and/or facilities that are likely to generate adverse environmental and social impacts to Affected Communities the client will identify the Affected Communities and will meet the relevant requirements described below.

27. The client will develop and implement a Stakeholder Engagement Plan that is scaled to the project risks and impacts and development stage, and be tailored to the characteristics and interests of the Affected Communities. Where applicable, the Stakeholder Engagement Plan will include differentiated measures to allow the effective participation of those identified as disadvantaged or vulnerable. When the stakeholder engagement process depends substantially on community representatives,[25] the client will make every reasonable effort to verify that such persons do in fact represent the views of Affected Communities and that they can be relied upon to faithfully communicate the results of consultations to their constituents.

28. In cases where the exact location of the project is not known, but it is reasonably expected to have significant impacts on local communities, the client will prepare a Stakeholder Engagement Framework, as part of its management program, outlining general principles and a strategy to identify Affected Communities and other relevant stakeholders and plan for an engagement process

[24] Requirements regarding engagement of workers and related grievance redress procedures are found in Performance Standard 2.

[25] For example, community and religious leaders, local government representatives, civil society representatives, politicians, school teachers, and/or others representing one or more affected stakeholder groups.

compatible with this Performance Standard that will be implemented once the physical location of the project is known.

Disclosure of Information

29. Disclosure of relevant project information helps Affected Communities and other stakeholders understand the risks, impacts and opportunities of the project. The client will provide Affected Communities with access to relevant information[26] on: (i) the purpose, nature, and scale of the project; (ii) the duration of proposed project activities; (iii) any risks to and potential impacts on such communities and relevant mitigation measures; (iv) the envisaged stakeholder engagement process; and (v) the grievance mechanism.

Consultation

30. When Affected Communities are subject to identified risks and adverse impacts from a project, the client will undertake a process of consultation in a manner that provides the Affected Communities with opportunities to express their views on project risks, impacts and mitigation measures, and allows the client to consider and respond to them. The extent and degree of engagement required by the consultation process should be commensurate with the project's risks and adverse impacts and with the concerns raised by the Affected Communities. Effective consultation is a two-way process that should: (i) begin early in the process of identification of environmental and social risks and impacts and continue on an ongoing basis as risks and impacts arise; (ii) be based on the prior disclosure and dissemination of relevant, transparent, objective, meaningful and easily accessible information which is in a culturally appropriate local language(s) and format and is understandable to Affected Communities; (iii) focus inclusive[27] engagement on those directly affected as opposed to those not directly affected; (iv) be free of external manipulation, interference, coercion, or intimidation; (v) enable meaningful participation, where applicable; and (vi) be documented. The client will tailor its consultation process to the language preferences of the Affected Communities, their decision-making process, and the needs of disadvantaged or vulnerable groups. If clients have already engaged in such a process, they will provide adequate documented evidence of such engagement.

Informed Consultation and Participation

31. For projects with potentially significant adverse impacts on Affected Communities, the client will conduct an Informed Consultation and Participation (ICP) process that will build upon the steps outlined above in Consultation and will result in the Affected Communities' informed participation. ICP involves a more in-depth exchange of views and information, and an organized and iterative consultation, leading to the client's incorporating into their decision-making process the views of the Affected Communities on matters that affect them directly, such as the proposed mitigation measures, the sharing of development benefits and opportunities, and implementation issues. The consultation process should (i) capture both men's and women's views, if necessary through separate forums or engagements, and (ii) reflect men's and women's different concerns and priorities about impacts, mitigation mechanisms, and benefits, where appropriate. The client will document the process, in particular the measures taken to avoid or minimize risks to and adverse impacts on the

[26] Depending on the scale of the project and significance of the risks and impacts, relevant document(s) could range from full Environmental and Social Assessments and Action Plans (i.e., Stakeholder Engagement Plan, Resettlement Action Plans, Biodiversity Action Plans, Hazardous Materials Management Plans, Emergency Preparedness and Response Plans, Community Health and Safety Plans, Ecosystem Restoration Plans, and Indigenous Peoples Development Plans, etc.) to easy-to-understand summaries of key issues and commitments. These documents could also include the client's environmental and social policy and any supplemental measures and actions defined as a result of independent due diligence conducted by financiers.

[27] Such as men, women, the elderly, youth, displaced persons, and vulnerable and disadvantaged persons or groups.

Affected Communities, and will inform those affected about how their concerns have been considered.

Indigenous Peoples

32. For projects with adverse impacts to Indigenous Peoples, the client is required to engage them in a process of ICP and in certain circumstances the client is required to obtain their Free, Prior, and Informed Consent (FPIC). The requirements related to Indigenous Peoples and the definition of the special circumstances requiring FPIC are described in Performance Standard 7.

Private Sector Responsibilities Under Government-Led Stakeholder Engagement

33. Where stakeholder engagement is the responsibility of the host government, the client will collaborate with the responsible government agency, to the extent permitted by the agency, to achieve outcomes that are consistent with the objectives of this Performance Standard. In addition, where government capacity is limited, the client will play an active role during the stakeholder engagement planning, implementation, and monitoring. If the process conducted by the government does not meet the relevant requirements of this Performance Standard, the client will conduct a complementary process and, where appropriate, identify supplemental actions.

External Communications and Grievance Mechanisms

External Communications

34. Clients will implement and maintain a procedure for external communications that includes methods to (i) receive and register external communications from the public; (ii) screen and assess the issues raised and determine how to address them; (iii) provide, track, and document responses, if any; and (iv) adjust the management program, as appropriate. In addition, clients are encouraged to make publicly available periodic reports on their environmental and social sustainability.

Grievance Mechanism for Affected Communities

35. Where there are Affected Communities, the client will establish a grievance mechanism to receive and facilitate resolution of Affected Communities' concerns and grievances about the client's environmental and social performance. The grievance mechanism should be scaled to the risks and adverse impacts of the project and have Affected Communities as its primary user. It should seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate and readily accessible, and at no cost and without retribution to the party that originated the issue or concern. The mechanism should not impede access to judicial or administrative remedies. The client will inform the Affected Communities about the mechanism in the course of the stakeholder engagement process.

Ongoing Reporting to Affected Communities

36. The client will provide periodic reports to the Affected Communities that describe progress with implementation of the project Action Plans on issues that involve ongoing risk to or impacts on Affected Communities and on issues that the consultation process or grievance mechanism have identified as a concern to those Communities. If the management program results in material changes in or additions to the mitigation measures or actions described in the Action Plans on issues of concern to the Affected Communities, the updated relevant mitigation measures or actions will be communicated to them. The frequency of these reports will be proportionate to the concerns of Affected Communities but not less than annually.

Performance Standard 2
Labor and Working Conditions

January 1, 2012

Introduction

1. Performance Standard 2 recognizes that the pursuit of economic growth through employment creation and income generation should be accompanied by protection of the fundamental[1] rights of workers. For any business, the workforce is a valuable asset, and a sound worker-management relationship is a key ingredient in the sustainability of a company. Failure to establish and foster a sound worker-management relationship can undermine worker commitment and retention, and can jeopardize a project. Conversely, through a constructive worker-management relationship, and by treating the workers fairly and providing them with safe and healthy working conditions, clients may create tangible benefits, such as enhancement of the efficiency and productivity of their operations.

2. The requirements set out in this Performance Standard have been in part guided by a number of international conventions and instruments, including those of the International Labour Organization (ILO) and the United Nations (UN).[2]

Objectives

- To promote the fair treatment, non-discrimination, and equal opportunity of workers.
- To establish, maintain, and improve the worker-management relationship.
- To promote compliance with national employment and labor laws.
- To protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain.
- To promote safe and healthy working conditions, and the health of workers.
- To avoid the use of forced labor.

Scope of Application

3. The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System (ESMS), the elements of which are outlined in Performance Standard 1.

4. The scope of application of this Performance Standard depends on the type of employment relationship between the client and the worker. It applies to workers directly engaged by the client (direct workers), workers engaged through third parties to perform work related to core business

[1] As guided by the ILO Conventions listed in footnote 2.

[2] These conventions are:
ILO Convention 87 on Freedom of Association and Protection of the Right to Organize
ILO Convention 98 on the Right to Organize and Collective Bargaining
ILO Convention 29 on Forced Labor
ILO Convention 105 on the Abolition of Forced Labor
ILO Convention 138 on Minimum Age (of Employment)
ILO Convention 182 on the Worst Forms of Child Labor
ILO Convention 100 on Equal Remuneration
ILO Convention 111 on Discrimination (Employment and Occupation)
UN Convention on the Rights of the Child, Article 32.1
UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families

processes[3] of the project for a substantial duration (contracted workers), as well as workers engaged by the client's primary suppliers (supply chain workers).[4]

Direct Workers

5. With respect to direct workers, the client will apply the requirements of paragraphs 8–23 of this Performance Standard.

Contracted Workers

6. With respect to contracted workers, the client will apply the requirements of paragraphs 23–26 of this Performance Standard.

Supply Chain Workers

7. With respect to supply chain workers, the client will apply the requirements of paragraphs 27–29 of this Performance Standard.

Requirements

Working Conditions and Management of Worker Relationship

Human Resources Policies and Procedures

8. The client will adopt and implement human resources policies and procedures appropriate to its size and workforce that set out its approach to managing workers consistent with the requirements of this Performance Standard and national law.

9. The client will provide workers with documented information that is clear and understandable, regarding their rights under national labor and employment law and any applicable collective agreements, including their rights related to hours of work, wages, overtime, compensation, and benefits upon beginning the working relationship and when any material changes occur.

Working Conditions and Terms of Employment

10. Where the client is a party to a collective bargaining agreement with a workers' organization, such agreement will be respected. Where such agreements do not exist, or do not address working conditions and terms of employment,[5] the client will provide reasonable working conditions and terms of employment.[6]

11. The client will identify migrant workers and ensure that they are engaged on substantially equivalent terms and conditions to non-migrant workers carrying out similar work.

[3] Core business processes constitute those production and/or service processes essential for a specific business activity without which the business activity could not continue.

[4] Primary suppliers are those suppliers who, on an ongoing basis, provide goods or materials essential for the core business processes of the project.

[5] Working conditions and terms of employment examples are wages and benefits; wage deductions; hours of work; overtime arrangements and overtime compensation; breaks; rest days; and leave for illness, maternity, vacation or holiday.

[6] Reasonable working conditions and terms of employment could be assessed by reference to (i) conditions established for work of the same character in the trade or industry concerned in the area/region where the work is carried out; (ii) collective agreement or other recognized negotiation between other organizations of employers and workers' representatives in the trade or industry concerned; (iii) arbitration award; or (iv) conditions established by national law.

12. Where accommodation services[7] are provided to workers covered by the scope of this Performance Standard, the client will put in place and implement policies on the quality and management of the accommodation and provision of basic services.[8] The accommodation services will be provided in a manner consistent with the principles of non-discrimination and equal opportunity. Workers' accommodation arrangements should not restrict workers' freedom of movement or of association.

Workers' Organizations

13. In countries where national law recognizes workers' rights to form and to join workers' organizations of their choosing without interference and to bargain collectively, the client will comply with national law. Where national law substantially restricts workers' organizations, the client will not restrict workers from developing alternative mechanisms to express their grievances and protect their rights regarding working conditions and terms of employment. The client should not seek to influence or control these mechanisms

14. In either case described in paragraph 13 of this Performance Standard, and where national law is silent, the client will not discourage workers from electing worker representatives, forming or joining workers' organizations of their choosing, or from bargaining collectively, and will not discriminate or retaliate against workers who participate, or seek to participate, in such organizations and collective bargaining. The client will engage with such workers' representatives and workers' organizations, and provide them with information needed for meaningful negotiation in a timely manner. Workers' organizations are expected to fairly represent the workers in the workforce.

Non-Discrimination and Equal Opportunity

15. The client will not make employment decisions on the basis of personal characteristics[9] unrelated to inherent job requirements. The client will base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to any aspects of the employment relationship, such as recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, job assignment, promotion, termination of employment or retirement, and disciplinary practices. The client will take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women. The principles of non-discrimination apply to migrant workers.

16. In countries where national law provides for non-discrimination in employment, the client will comply with national law. When national laws are silent on non-discrimination in employment, the client will meet this Performance Standard. In circumstances where national law is inconsistent with this Performance Standard, the client is encouraged to carry out its operations consistent with the intent of paragraph 15 above without contravening applicable laws.

17. Special measures of protection or assistance to remedy past discrimination or selection for a particular job based on the inherent requirements of the job will not be deemed as discrimination, provided they are consistent with national law.

[7] Those services might be provided either directly by the client or by third parties.

[8] Basic services requirements refer to minimum space, supply of water, adequate sewage and garbage disposal system, appropriate protection against heat, cold, damp, noise, fire and disease-carrying animals, adequate sanitary and washing facilities, ventilation, cooking and storage facilities and natural and artificial lighting, and in some cases basic medical services.

[9] Such as gender, race, nationality, ethnic, social and indigenous origin, religion or belief, disability, age, or sexual orientation.

Retrenchment

18. Prior to implementing any collective dismissals,[10] the client will carry out an analysis of alternatives to retrenchment.[11] If the analysis does not identify viable alternatives to retrenchment, a retrenchment plan will be developed and implemented to reduce the adverse impacts of retrenchment on workers. The retrenchment plan will be based on the principle of non-discrimination and will reflect the client's consultation with workers, their organizations, and, where appropriate, the government, and comply with collective bargaining agreements if they exist. The client will comply with all legal and contractual requirements related to notification of public authorities, and provision of information to, and consultation with workers and their organizations.

19. The client should ensure that all workers receive notice of dismissal and severance payments mandated by law and collective agreements in a timely manner. All outstanding back pay and social security benefits and pension contributions and benefits will be paid (i) on or before termination of the working relationship to the workers, (ii) where appropriate, for the benefit of the workers, or (iii) payment will be made in accordance with a timeline agreed through a collective agreement. Where payments are made for the benefit of workers, workers will be provided with evidence of such payments.

Grievance Mechanism

20. The client will provide a grievance mechanism for workers (and their organizations, where they exist) to raise workplace concerns. The client will inform the workers of the grievance mechanism at the time of recruitment and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides timely feedback to those concerned, without any retribution. The mechanism should also allow for anonymous complaints to be raised and addressed. The mechanism should not impede access to other judicial or administrative remedies that might be available under the law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements.

Protecting the Work Force

Child Labor

21. The client will not employ children in any manner that is economically exploitative, or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development. The client will identify the presence of all persons under the age of 18. Where national laws have provisions for the employment of minors, the client will follow those laws applicable to the client. Children under the age of 18 will not be employed in hazardous work.[12] All work of persons under the age of 18 will be subject to an appropriate risk assessment and regular monitoring of health, working conditions, and hours of work.

[10] Collective dismissals cover all multiple dismissals that are a result of an economic, technical, or organizational reason; or other reasons that are not related to performance or other personal reasons.

[11] Examples of alternatives may include negotiated working-time reduction programs, employee capacity-building programs; long-term maintenance works during low production periods, etc.

[12] Examples of hazardous work activities include work (i) with exposure to physical, psychological, or sexual abuse; (ii) underground, underwater, working at heights, or in confined spaces; (iii) with dangerous machinery, equipment, or tools, or involving handling of heavy loads; (iv) in unhealthy environments exposing the worker to hazardous substances, agents, processes, temperatures, noise, or vibration damaging to health; or (v) under difficult conditions such as long hours, late night, or confinement by employer.

Forced Labor

22. The client will not employ forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty. This covers any kind of involuntary or compulsory labor, such as indentured labor, bonded labor, or similar labor-contracting arrangements. The client will not employ trafficked persons.[13]

Occupational Health and Safety

23. The client will provide a safe and healthy work environment, taking into account inherent risks in its particular sector and specific classes of hazards in the client's work areas, including physical, chemical, biological, and radiological hazards, and specific threats to women. The client will take steps to prevent accidents, injury, and disease arising from, associated with, or occurring in the course of work by minimizing, as far as reasonably practicable, the causes of hazards. In a manner consistent with good international industry practice,[14] as reflected in various internationally recognized sources including the World Bank Group Environmental, Health and Safety Guidelines, the client will address areas that include the (i) identification of potential hazards to workers, particularly those that may be life-threatening; (ii) provision of preventive and protective measures, including modification, substitution, or elimination of hazardous conditions or substances; (iii) training of workers; (iv) documentation and reporting of occupational accidents, diseases, and incidents; and (v) emergency prevention, preparedness, and response arrangements. For additional information related to emergency preparedness and response refer to Performance Standard 1.

Workers Engaged by Third Parties

24. With respect to contracted workers the client will take commercially reasonable efforts to ascertain that the third parties who engage these workers are reputable and legitimate enterprises and have an appropriate ESMS that will allow them to operate in a manner consistent with the requirements of this Performance Standard, except for paragraphs 18–19, and 27–29.

25. The client will establish policies and procedures for managing and monitoring the performance of such third party employers in relation to the requirements of this Performance Standard. In addition, the client will use commercially reasonable efforts to incorporate these requirements in contractual agreements with such third party employers.

26. The client will ensure that contracted workers, covered in paragraphs 24–25 of this Performance Standard, have access to a grievance mechanism. In cases where the third party is not able to provide a grievance mechanism the client will extend its own grievance mechanism to serve workers engaged by the third party.

[13] Trafficking in persons is defined as the recruitment, transportation, transfer, harboring, or receipt of persons, by means of the threat or use of force or other forms of coercion, abduction, fraud, deception, abuse of power, or of a position of vulnerability, or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Women and children are particularly vulnerable to trafficking practices.

[14] Defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances, globally or regionally.

Supply Chain

27. Where there is a high risk of child labor or forced labor[15] in the primary supply chain, the client will identify those risks consistent with paragraphs 21 and 22 above. If child labor or forced labor cases are identified, the client will take appropriate steps to remedy them. The client will monitor its primary supply chain on an ongoing basis in order to identify any significant changes in its supply chain and if new risks or incidents of child and/or forced labor are identified, the client will take appropriate steps to remedy them.

28. Additionally, where there is a high risk of significant safety issues related to supply chain workers, the client will introduce procedures and mitigation measures to ensure that primary suppliers within the supply chain are taking steps to prevent or to correct life-threatening situations.

29. The ability of the client to fully address these risks will depend upon the client's level of management control or influence over its primary suppliers. Where remedy is not possible, the client will shift the project's primary supply chain over time to suppliers that can demonstrate that they are complying with this Performance Standard.

[15] The potential risk of child labor and forced labor will be determined during the risks and impacts identification process as required in Performance Standard 1.

Performance Standard 3
Resource Efficiency and Pollution Prevention

January 1, 2012

Introduction

1. Performance Standard 3 recognizes that increased economic activity and urbanization often generate increased levels of pollution to air, water, and land, and consume finite resources in a manner that may threaten people and the environment at the local, regional, and global levels.[1] There is also a growing global consensus that the current and projected atmospheric concentration of greenhouse gases (GHG) threatens the public health and welfare of current and future generations. At the same time, more efficient and effective resource use and pollution prevention[2] and GHG emission avoidance and mitigation technologies and practices have become more accessible and achievable in virtually all parts of the world. These are often implemented through continuous improvement methodologies similar to those used to enhance quality or productivity, which are generally well known to most industrial, agricultural, and service sector companies.

2. This Performance Standard outlines a project-level approach to resource efficiency and pollution prevention and control in line with internationally disseminated technologies and practices. In addition, this Performance Standard promotes the ability of private sector companies to adopt such technologies and practices as far as their use is feasible in the context of a project that relies on commercially available skills and resources.

Objectives

- To avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities.
- To promote more sustainable use of resources, including energy and water.
- To reduce project-related GHG emissions.

Scope of Application

3. The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System, the elements of which are outlined in Performance Standard 1.

Requirements

4. During the project life-cycle, the client will consider ambient conditions and apply technically and financially feasible resource efficiency and pollution prevention principles and techniques that are best suited to avoid, or where avoidance is not possible, minimize adverse impacts on human health and the environment.[3] The principles and techniques applied during the project life-cycle will be

[1] For the purposes of this Performance Standard, the term "pollution" is used to refer to both hazardous and non-hazardous chemical pollutants in the solid, liquid, or gaseous phases, and includes other components such as pests, pathogens, thermal discharge to water, GHG emissions, nuisance odors, noise, vibration, radiation, electromagnetic energy, and the creation of potential visual impacts including light.

[2] For the purpose of this Performance Standard, the term "pollution prevention" does not mean absolute elimination of emissions, but the avoidance at source whenever possible, and, if not possible, then subsequent minimization of pollution to the extent that the Performance Standard objectives are satisfied.

[3] Technical feasibility is based on whether the proposed measures and actions can be implemented with commercially available skills, equipment, and materials, taking into consideration prevailing local factors such as climate, geography, infrastructure, security, governance, capacity and operational reliability. Financial feasibility is

tailored to the hazards and risks associated with the nature of the project and consistent with good international industry practice (GIIP),[4] as reflected in various internationally recognized sources, including the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines).

5. The client will refer to the EHS Guidelines or other internationally recognized sources, as appropriate, when evaluating and selecting resource efficiency and pollution prevention and control techniques for the project. The EHS Guidelines contain the performance levels and measures that are normally acceptable and applicable to projects. When host country regulations differ from the levels and measures presented in the EHS Guidelines, clients will be required to achieve whichever is more stringent. If less stringent levels or measures than those provided in the EHS Guidelines are appropriate in view of specific project circumstances, the client will provide full and detailed justification for any proposed alternatives through the environmental and social risks and impacts identification and assessment process. This justification must demonstrate that the choice for any alternate performance levels is consistent with the objectives of this Performance Standard.

Resource Efficiency

6. The client will implement technically and financially feasible and cost effective[5] measures for improving efficiency in its consumption of energy, water, as well as other resources and material inputs, with a focus on areas that are considered core business activities. Such measures will integrate the principles of cleaner production into product design and production processes with the objective of conserving raw materials, energy, and water. Where benchmarking data are available, the client will make a comparison to establish the relative level of efficiency.

Greenhouse Gases

7. In addition to the resource efficiency measures described above, the client will consider alternatives and implement technically and financially feasible and cost-effective options to reduce project-related GHG emissions during the design and operation of the project. These options may include, but are not limited to, alternative project locations, adoption of renewable or low carbon energy sources, sustainable agricultural, forestry and livestock management practices, the reduction of fugitive emissions and the reduction of gas flaring.

8. For projects that are expected to or currently produce more than 25,000 tonnes of CO_2-equivalent annually,[6] the client will quantify direct emissions from the facilities owned or controlled within the physical project boundary,[7] as well as indirect emissions associated with the off-site

based on commercial considerations, including relative magnitude of the incremental cost of adopting such measures and actions compared to the project's investment, operating, and maintenance costs.

[4] GIIP is defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. The outcome of such exercise should be that the project employs the most appropriate technologies in the project-specific circumstances.

[5] Cost-effectiveness is determined according to the capital and operational cost and financial benefits of the measure considered over the life of the measure. For the purpose of this Performance Standard, a resource efficiency or GHG emissions reduction measure is considered cost-effective if it is expected to provide a risk-rated return on investment at least comparable to the project itself.

[6] The quantification of emissions should consider all significant sources of greenhouse gas emissions, including non-energy related sources such as methane and nitrous oxide, among others.

[7] Project-induced changes in soil carbon content or above ground biomass, and project-induced decay of organic matter may contribute to direct emissions sources and shall be included in this emissions quantification where such emissions are expected to be significant.

production of energy[8] used by the project. Quantification of GHG emissions will be conducted by the client annually in accordance with internationally recognized methodologies and good practice.[9]

Water Consumption

9. When the project is a potentially significant consumer of water, in addition to applying the resource efficiency requirements of this Performance Standard, the client shall adopt measures that avoid or reduce water usage so that the project's water consumption does not have significant adverse impacts on others. These measures include, but are not limited to, the use of additional technically feasible water conservation measures within the client's operations, the use of alternative water supplies, water consumption offsets to reduce total demand for water resources to within the available supply, and evaluation of alternative project locations.

Pollution Prevention

10. The client will avoid the release of pollutants or, when avoidance is not feasible, minimize and/or control the intensity and mass flow of their release. This applies to the release of pollutants to air, water, and land due to routine, non-routine, and accidental circumstances with the potential for local, regional, and transboundary impacts.[10] Where historical pollution such as land or ground water contamination exists, the client will seek to determine whether it is responsible for mitigation measures. If it is determined that the client is legally responsible, then these liabilities will be resolved in accordance with national law, or where this is silent, with GIIP.[11]

11. To address potential adverse project impacts on existing ambient conditions,[12] the client will consider relevant factors, including, for example (i) existing ambient conditions; (ii) the finite assimilative capacity[13] of the environment; (iii) existing and future land use; (iv) the project's proximity to areas of importance to biodiversity; and (v) the potential for cumulative impacts with uncertain and/or irreversible consequences. In addition to applying resource efficiency and pollution control measures as required in this Performance Standard, when the project has the potential to constitute a significant source of emissions in an already degraded area, the client will consider additional strategies and adopt measures that avoid or reduce negative effects. These strategies include, but are not limited to, evaluation of project location alternatives and emissions offsets.

Wastes

12. The client will avoid the generation of hazardous and non-hazardous waste materials. Where waste generation cannot be avoided, the client will reduce the generation of waste, and recover and reuse waste in a manner that is safe for human health and the environment. Where waste cannot be recovered or reused, the client will treat, destroy, or dispose of it in an environmentally sound manner that includes the appropriate control of emissions and residues resulting from the handling and processing of the waste material. If the generated waste is considered hazardous,[14] the client will

[8] Refers to the off-site generation by others of electricity, and heating and cooling energy used in the project.

[9] Estimation methodologies are provided by the Intergovernmental Panel on Climate Change, various international organizations, and relevant host country agencies.

[10] Transboundary pollutants include those covered under the Convention on Long-Range Transboundary Air Pollution.

[11] This may require coordination with national and local government, communities, and the contributors to the contamination, and that any assessment follows a risk-based approach consistent with GIIP as reflected in the EHS Guidelines.

[12] Such as air, surface and groundwater, and soils.

[13] The capacity of the environment for absorbing an incremental load of pollutants while remaining below a threshold of unacceptable risk to human health and the environment.

[14] As defined by international conventions or local legislation.

adopt GIIP alternatives for its environmentally sound disposal while adhering to the limitations applicable to its transboundary movement.[15] When hazardous waste disposal is conducted by third parties, the client will use contractors that are reputable and legitimate enterprises licensed by the relevant government regulatory agencies and obtain chain of custody documentation to the final destination. The client should ascertain whether licensed disposal sites are being operated to acceptable standards and where they are, the client will use these sites. Where this is not the case, clients should reduce waste sent to such sites and consider alternative disposal options, including the possibility of developing their own recovery or disposal facilities at the project site.

Hazardous Materials Management

13. Hazardous materials are sometimes used as raw material or produced as product by the project. The client will avoid or, when avoidance is not possible, minimize and control the release of hazardous materials. In this context, the production, transportation, handling, storage, and use of hazardous materials for project activities should be assessed. The client will consider less hazardous substitutes where hazardous materials are intended to be used in manufacturing processes or other operations. The client will avoid the manufacture, trade, and use of chemicals and hazardous materials subject to international bans or phase-outs due to their high toxicity to living organisms, environmental persistence, potential for bioaccumulation, or potential for depletion of the ozone layer.[16]

Pesticide Use and Management

14. The client will, where appropriate, formulate and implement an integrated pest management (IPM) and/or integrated vector management (IVM) approach targeting economically significant pest infestations and disease vectors of public health significance. The client's IPM and IVM program will integrate coordinated use of pest and environmental information along with available pest control methods, including cultural practices, biological, genetic, and, as a last resort, chemical means to prevent economically significant pest damage and/or disease transmission to humans and animals.

15. When pest management activities include the use of chemical pesticides, the client will select chemical pesticides that are low in human toxicity, that are known to be effective against the target species, and that have minimal effects on non-target species and the environment. When the client selects chemical pesticides, the selection will be based upon requirements that the pesticides be packaged in safe containers, be clearly labeled for safe and proper use, and that the pesticides have been manufactured by an entity currently licensed by relevant regulatory agencies.

16. The client will design its pesticide application regime to (i) avoid damage to natural enemies of the target pest, and where avoidance is not possible, minimize, and (ii) avoid the risks associated with the development of resistance in pests and vectors, and where avoidance is not possible minimize. In addition, pesticides will be handled, stored, applied, and disposed of in accordance with the Food and Agriculture Organization's International Code of Conduct on the Distribution and Use of Pesticides or other GIIP.

17. The client will not purchase, store, use, manufacture, or trade in products that fall in WHO Recommended Classification of Pesticides by Hazard Class Ia (extremely hazardous); or Ib (highly

[15] Transboundary movement of hazardous materials should be consistent with national, regional and international law, including the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal and the London Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter.

[16] Consistent with the objectives of the Stockholm Convention on Persistent Organic Pollutants and the Montreal Protocol on Substances that Deplete the Ozone Layer. Similar considerations will apply to certain World Health Organization (WHO) classes of pesticides.

hazardous). The client will not purchase, store, use, manufacture or trade in Class II (moderately hazardous) pesticides, unless the project has appropriate controls on manufacture, procurement, or distribution and/or use of these chemicals. These chemicals should not be accessible to personnel without proper training, equipment, and facilities to handle, store, apply, and dispose of these products properly.

Performance Standard 4
Community Health, Safety, and Security

January 1, 2012

Introduction

1. Performance Standard 4 recognizes that project activities, equipment, and infrastructure can increase community exposure to risks and impacts. In addition, communities that are already subjected to impacts from climate change may also experience an acceleration and/or intensification of impacts due to project activities. While acknowledging the public authorities' role in promoting the health, safety, and security of the public, this Performance Standard addresses the client's responsibility to avoid or minimize the risks and impacts to community health, safety, and security that may arise from project related-activities, with particular attention to vulnerable groups.

2. In conflict and post-conflict areas, the level of risks and impacts described in this Performance Standard may be greater. The risks that a project could exacerbate an already sensitive local situation and stress scarce local resources should not be overlooked as it may lead to further conflict.

Objectives

- To anticipate and avoid adverse impacts on the health and safety of the Affected Community during the project life from both routine and non-routine circumstances.
- To ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to the Affected Communities.

Scope of Application

3. The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System, the elements of which are outlined in Performance Standard 1.

4. This Performance Standard addresses potential risks and impacts to the Affected Communities from project activities. Occupational health and safety requirements for workers are included in Performance Standard 2, and environmental standards to avoid or minimize impacts on human health and the environment due to pollution are included in Performance Standard 3.

Requirements

Community Health and Safety

5. The client will evaluate the risks and impacts to the health and safety of the Affected Communities during the project life-cycle and will establish preventive and control measures consistent with good international industry practice (GIIP),[1] such as in the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) or other internationally recognized sources. The client will identify risks and impacts and propose mitigation measures that are commensurate with their nature and magnitude. These measures will favor the avoidance of risks and impacts over minimization.

[1] Defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally.

Infrastructure and Equipment Design and Safety

6. The client will design, construct, operate, and decommission the structural elements or components of the project in accordance with GIIP, taking into consideration safety risks to third parties or Affected Communities. When new buildings and structures will be accessed by members of the public, the client will consider incremental risks of the public's potential exposure to operational accidents and/or natural hazards and be consistent with the principles of universal access. Structural elements will be designed and constructed by competent professionals, and certified or approved by competent authorities or professionals. When structural elements or components, such as dams, tailings dams, or ash ponds are situated in high-risk locations, and their failure or malfunction may threaten the safety of communities, the client will engage one or more external experts with relevant and recognized experience in similar projects, separate from those responsible for the design and construction, to conduct a review as early as possible in project development and throughout the stages of project design, construction, operation, and decommissioning. For projects that operate moving equipment on public roads and other forms of infrastructure, the client will seek to avoid the occurrence of incidents and injuries to members of the public associated with the operation of such equipment.

Hazardous Materials Management and Safety

7. The client will avoid or minimize the potential for community exposure to hazardous materials and substances that may be released by the project. Where there is a potential for the public (including workers and their families) to be exposed to hazards, particularly those that may be life-threatening, the client will exercise special care to avoid or minimize their exposure by modifying, substituting, or eliminating the condition or material causing the potential hazards. Where hazardous materials are part of existing project infrastructure or components, the client will exercise special care when conducting decommissioning activities in order to avoid exposure to the community. The client will exercise commercially reasonable efforts to control the safety of deliveries of hazardous materials, and of transportation and disposal of hazardous wastes, and will implement measures to avoid or control community exposure to pesticides, in accordance with the requirements of Performance Standard 3.

Ecosystem Services

8. The project's direct impacts on priority ecosystem services may result in adverse health and safety risks and impacts to Affected Communities. With respect to this Performance Standard, ecosystem services are limited to provisioning and regulating services as defined in paragraph 2 of Performance Standard 6. For example, land use changes or the loss of natural buffer areas such as wetlands, mangroves, and upland forests that mitigate the effects of natural hazards such as flooding, landslides, and fire, may result in increased vulnerability and community safety-related risks and impacts. The diminution or degradation of natural resources, such as adverse impacts on the quality, quantity, and availability of freshwater,[2] may result in health-related risks and impacts. Where appropriate and feasible, the client will identify those risks and potential impacts on priority ecosystem services that may be exacerbated by climate change. Adverse impacts should be avoided, and if these impacts are unavoidable, the client will implement mitigation measures in accordance with paragraphs 24 and 25 of Performance Standard 6. With respect to the use of and loss of access to provisioning services, clients will implement mitigation measures in accordance with paragraphs 25–29 of Performance Standard 5.

[2] Freshwater is an example of provisioning ecosystem services.

Community Exposure to Disease

9. The client will avoid or minimize the potential for community exposure to water-borne, water-based, water-related, and vector-borne diseases, and communicable diseases that could result from project activities, taking into consideration differentiated exposure to and higher sensitivity of vulnerable groups. Where specific diseases are endemic in communities in the project area of influence, the client is encouraged to explore opportunities during the project life-cycle to improve environmental conditions that could help minimize their incidence.

10. The client will avoid or minimize transmission of communicable diseases that may be associated with the influx of temporary or permanent project labor.

Emergency Preparedness and Response

11. In addition to the emergency preparedness and response requirements described in Performance Standard 1, the client will also assist and collaborate with the Affected Communities, local government agencies, and other relevant parties, in their preparations to respond effectively to emergency situations, especially when their participation and collaboration are necessary to respond to such emergency situations. If local government agencies have little or no capacity to respond effectively, the client will play an active role in preparing for and responding to emergencies associated with the project. The client will document its emergency preparedness and response activities, resources, and responsibilities, and will disclose appropriate information to Affected Communities, relevant government agencies, or other relevant parties.

Security Personnel

12. When the client retains direct or contracted workers to provide security to safeguard its personnel and property, it will assess risks posed by its security arrangements to those within and outside the project site. In making such arrangements, the client will be guided by the principles of proportionality and good international practice[3] in relation to hiring, rules of conduct, training, equipping, and monitoring of such workers, and by applicable law. The client will make reasonable inquiries to ensure that those providing security are not implicated in past abuses; will train them adequately in the use of force (and where applicable, firearms), and appropriate conduct toward workers and Affected Communities; and require them to act within the applicable law. The client will not sanction any use of force except when used for preventive and defensive purposes in proportion to the nature and extent of the threat. The client will provide a grievance mechanism for Affected Communities to express concerns about the security arrangements and acts of security personnel.

13. The client will assess and document risks arising from the project's use of government security personnel deployed to provide security services. The client will seek to ensure that security personnel will act in a manner consistent with paragraph 12 above, and encourage the relevant public authorities to disclose the security arrangements for the client's facilities to the public, subject to overriding security concerns.

14. The client will consider and, where appropriate, investigate all allegations of unlawful or abusive acts of security personnel, take action (or urge appropriate parties to take action) to prevent recurrence, and report unlawful and abusive acts to public authorities.

[3] Including practice consistent with the United Nation's (UN) Code of Conduct for Law Enforcement Officials, and UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials.

Performance Standard 5
Land Acquisition and Involuntary Resettlement

January 1, 2012

Introduction

1. Performance Standard 5 recognizes that project-related land acquisition and restrictions on land use can have adverse impacts on communities and persons that use this land. Involuntary resettlement refers both to physical displacement (relocation or loss of shelter) and to economic displacement (loss of assets or access to assets that leads to loss of income sources or other means of livelihood[1]) as a result of project-related land acquisition[2] and/or restrictions on land use. Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in physical or economic displacement. This occurs in cases of (i) lawful expropriation or temporary or permanent restrictions on land use and (ii) negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions on land use if negotiations with the seller fail.

2. Unless properly managed, involuntary resettlement may result in long-term hardship and impoverishment for the Affected Communities and persons, as well as environmental damage and adverse socio-economic impacts in areas to which they have been displaced. For these reasons, involuntary resettlement should be avoided. However, where involuntary resettlement is unavoidable, it should be minimized and appropriate measures to mitigate adverse impacts on displaced persons and host communities[3] should be carefully planned and implemented. The government often plays a central role in the land acquisition and resettlement process, including the determination of compensation, and is therefore an important third party in many situations. Experience demonstrates that the direct involvement of the client in resettlement activities can result in more cost-effective, efficient, and timely implementation of those activities, as well as in the introduction of innovative approaches to improving the livelihoods of those affected by resettlement.

3. To help avoid expropriation and eliminate the need to use governmental authority to enforce relocation, clients are encouraged to use negotiated settlements meeting the requirements of this Performance Standard, even if they have the legal means to acquire land without the seller's consent.

Objectives

- To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs.
- To avoid forced eviction.
- To anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use by (i) providing compensation for loss of assets at replacement cost[4] and (ii) ensuring

[1] The term "livelihood" refers to the full range of means that individuals, families, and communities utilize to make a living, such as wage-based income, agriculture, fishing, foraging, other natural resource-based livelihoods, petty trade, and bartering.

[2] Land acquisition includes both outright purchases of property and acquisition of access rights, such as easements or rights of way.

[3] A host community is any community receiving displaced persons.

[4] Replacement cost is defined as the market value of the assets plus transaction costs. In applying this method of valuation, depreciation of structures and assets should not be taken into account. Market value is defined as the value required to allow Affected Communities and persons to replace lost assets with assets of similar value. The valuation method for determining replacement cost should be documented and included in applicable Resettlement and/or Livelihood Restoration plans (see paragraphs 18 and 25).

that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected.
- To improve, or restore, the livelihoods and standards of living of displaced persons.
- To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure[5] at resettlement sites.

Scope of Application

4. The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System, the elements of which are outlined in Performance Standard 1.

5. This Performance Standard applies to physical and/or economic displacement resulting from the following types of land-related transactions:

- Land rights or land use rights acquired through expropriation or other compulsory procedures in accordance with the legal system of the host country;
- Land rights or land use rights acquired through negotiated settlements with property owners or those with legal rights to the land if failure to reach settlement would have resulted in expropriation or other compulsory procedures;[6]
- Project situations where involuntary restrictions on land use and access to natural resources cause a community or groups within a community to lose access to resource usage where they have traditional or recognizable usage rights;[7]
- Certain project situations requiring evictions of people occupying land without formal, traditional, or recognizable usage rights;[8] or
- Restriction on access to land or use of other resources including communal property and natural resources such as marine and aquatic resources, timber and non-timber forest products, freshwater, medicinal plants, hunting and gathering grounds and grazing and cropping areas.[9]

6. This Performance Standard does not apply to resettlement resulting from voluntary land transactions (i.e., market transactions in which the seller is not obliged to sell and the buyer cannot resort to expropriation or other compulsory procedures sanctioned by the legal system of the host country if negotiations fail). It also does not apply to impacts on livelihoods where the project is not changing the land use of the affected groups or communities.[10]

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[5] Security of tenure means that resettled individuals or communities are resettled to a site that they can legally occupy and where they are protected from the risk of eviction.

[6] This also applies to customary or traditional rights recognized or recognizable under the laws of the host country. The negotiations may be carried out by the government or by the company (in some circumstances, as an agent of the government).

[7] In such situations, affected persons frequently do not have formal ownership. This may include freshwater and marine environments. This Performance Standard may also apply when project-related biodiversity areas or legally designated buffer zones are established but not acquired by the client.

[8] While some people do not have rights over the land they occupy, this Performance Standard requires that non-land assets be retained, replaced, or compensated for; relocation take place with security of tenure; and lost livelihoods be restored.

[9] Natural resource assets referred to in this Performance Standard are equivalent to ecosystem provisioning services as described in Performance Standard 6.

[10] More generalized impacts on communities or groups of people are covered in Performance Standard 1. For example, disruption of access to mineral deposits by artisanal miners is covered by Performance Standard 1.

7. Where project impacts on land, assets, or access to assets become significantly adverse at any stage of the project, the client should consider applying requirements of this Performance Standard, even where no land acquisition or land use restriction is involved.

Requirements

General

Project Design

8. The client will consider feasible alternative project designs to avoid or minimize physical and/or economic displacement, while balancing environmental, social, and financial costs and benefits, paying particular attention to impacts on the poor and vulnerable.

Compensation and Benefits for Displaced Persons

9. When displacement cannot be avoided, the client will offer displaced communities and persons compensation for loss of assets at full replacement cost and other assistance[11] to help them improve or restore their standards of living or livelihoods, as provided in this Performance Standard. Compensation standards will be transparent and applied consistently to all communities and persons affected by the displacement. Where livelihoods of displaced persons are land-based,[12] or where land is collectively owned, the client will, where feasible,[13] offer the displaced land-based compensation. The client will take possession of acquired land and related assets only after compensation has been made available[14] and, where applicable, resettlement sites and moving allowances have been provided to the displaced persons in addition to compensation.[15] The client will also provide opportunities to displaced communities and persons to derive appropriate development benefits from the project.

Community Engagement

10. The client will engage with Affected Communities, including host communities, through the process of stakeholder engagement described in Performance Standard 1. Decision-making processes related to resettlement and livelihood restoration should include options and alternatives, where applicable. Disclosure of relevant information and participation of Affected Communities and persons will continue during the planning, implementation, monitoring, and evaluation of compensation payments, livelihood restoration activities, and resettlement to achieve outcomes that are consistent with the objectives of this Performance Standard.[16] Additional provisions apply to consultations with Indigenous Peoples, in accordance with Performance Standard 7.

[11] As described in paragraphs 19 and 26.

[12] The term "land-based" includes livelihood activities such as subsistence cropping and grazing of livestock as well as the harvesting of natural resources.

[13] Refer to paragraph 26 of this Performance Standard for further requirements.

[14] In certain cases it may not be feasible to pay compensation to all those affected before taking possession of the land, for example when the ownership of the land in question is in dispute. Such circumstances shall be identified and agreed on a case-by-case basis, and compensation funds shall be made available for example through deposit into an escrow account before displacement takes place.

[15] Unless government-managed resettlement is involved and where the client has no direct influence over the timing of compensation payments. Such cases should be handled in accordance with paragraphs 27–29 of this Performance Standard. Staggered compensation payments may be made where one-off cash payments would demonstrably undermine social and/or resettlement objectives, or where there are ongoing impacts to livelihood activities.

[16] The consultation process should ensure that women's perspectives are obtained and their interests factored into all aspects of resettlement planning and implementation. Addressing livelihood impacts may require intra-household analysis in cases where women's and men's livelihoods are affected differently. Women's and men's preferences in terms of compensation mechanisms, such as compensation in kind rather than in cash, should be explored.

Grievance Mechanism

11. The client will establish a grievance mechanism consistent with Performance Standard 1 as early as possible in the project development phase. This will allow the client to receive and address specific concerns about compensation and relocation raised by displaced persons or members of host communities in a timely fashion, including a recourse mechanism designed to resolve disputes in an impartial manner.

Resettlement and Livelihood Restoration Planning and Implementation

12. Where involuntary resettlement is unavoidable, either as a result of a negotiated settlement or expropriation, a census will be carried out to collect appropriate socio-economic baseline data to identify the persons who will be displaced by the project, determine who will be eligible for compensation and assistance,[17] and discourage ineligible persons, such as opportunistic settlers, from claiming benefits. In the absence of host government procedures, the client will establish a cut-off date for eligibility. Information regarding the cut-off date will be well documented and disseminated throughout the project area.

13. In cases where affected persons reject compensation offers that meet the requirements of this Performance Standard and, as a result, expropriation or other legal procedures are initiated, the client will explore opportunities to collaborate with the responsible government agency, and, if permitted by the agency, play an active role in resettlement planning, implementation, and monitoring (see paragraphs 30–32).

14. The client will establish procedures to monitor and evaluate the implementation of a Resettlement Action Plan or Livelihood Restoration Plan (see paragraphs 19 and 25) and take corrective action as necessary. The extent of monitoring activities will be commensurate with the project's risks and impacts. For projects with significant involuntary resettlement risks, the client will retain competent resettlement professionals to provide advice on compliance with this Performance Standard and to verify the client's monitoring information. Affected persons will be consulted during the monitoring process.

15. Implementation of a Resettlement Action Plan or Livelihood Restoration Plan will be considered completed when the adverse impacts of resettlement have been addressed in a manner that is consistent with the relevant plan as well as the objectives of this Performance Standard. It may be necessary for the client to commission an external completion audit of the Resettlement Action Plan or Livelihood Restoration Plan to assess whether the provisions have been met, depending on the scale and/or complexity of physical and economic displacement associated with a project. The completion audit should be undertaken once all mitigation measures have been substantially completed and once displaced persons are deemed to have been provided adequate opportunity and assistance to sustainably restore their livelihoods. The completion audit will be undertaken by competent resettlement professionals once the agreed monitoring period is concluded. The completion audit will include, at a minimum, a review of the totality of mitigation measures implemented by the Client, a comparison of implementation outcomes against agreed objectives, and a conclusion as to whether the monitoring process can be ended.[18]

[17] Documentation of ownership or occupancy and compensation arrangements should be issued in the names of both spouses or heads of households, and other resettlement assistance, such as skills training, access to credit, and job opportunities, should be equally available to women and adapted to their needs. Where national law and tenure systems do not recognize the rights of women to hold or contract in property, measures should be considered to provide women as much protection as possible with the objective to achieve equity with men.

[18] The completion audit of the Resettlement Action Plan and/or Livelihood Restoration Plan, will be undertaken by external resettlement experts once the agreed monitoring period is concluded, and will involve a more in-depth assessment than regular resettlement monitoring activities, including at a minimum a review of all mitigation

16. Where the exact nature or magnitude of the land acquisition or restrictions on land use related to a project with potential to cause physical and/or economic displacement is unknown due to the stage of project development, the client will develop a Resettlement and/or Livelihood Restoration Framework outlining general principles compatible with this Performance Standard. Once the individual project components are defined and the necessary information becomes available, such a framework will be expanded into a specific Resettlement Action Plan or Livelihood Restoration Plan and procedures in accordance with paragraphs 19 and 25 below.

Displacement

17. Displaced persons may be classified as persons (i) who have formal legal rights to the land or assets they occupy or use; (ii) who do not have formal legal rights to land or assets, but have a claim to land that is recognized or recognizable under national law;[19] or (iii) who have no recognizable legal right or claim to the land or assets they occupy or use. The census will establish the status of the displaced persons.

18. Project-related land acquisition and/or restrictions on land use may result in the physical displacement of people as well as their economic displacement. Consequently, requirements of this Performance Standard in respect of physical displacement and economic displacement may apply simultaneously.[20]

Physical Displacement

19. In the case of physical displacement, the client will develop a Resettlement Action Plan that covers, at a minimum, the applicable requirements of this Performance Standard regardless of the number of people affected. This will include compensation at full replacement cost for land and other assets lost. The Plan will be designed to mitigate the negative impacts of displacement; identify development opportunities; develop a resettlement budget and schedule; and establish the entitlements of all categories of affected persons (including host communities). Particular attention will be paid to the needs of the poor and the vulnerable. The client will document all transactions to acquire land rights, as well as compensation measures and relocation activities.

20. If people living in the project area are required to move to another location, the client will (i) offer displaced persons choices among feasible resettlement options, including adequate replacement housing or cash compensation where appropriate; and (ii) provide relocation assistance suited to the needs of each group of displaced persons. New resettlement sites built for displaced persons must offer improved living conditions. The displaced persons' preferences with respect to relocating in preexisting communities and groups will be taken into consideration. Existing social and cultural institutions of the displaced persons and any host communities will be respected.

21. In the case of physically displaced persons under paragraph 17 (i) or (ii), the client will offer the choice of replacement property of equal or higher value, security of tenure, equivalent or better characteristics, and advantages of location or cash compensation where appropriate. Compensation

measures with respect to the physical and/or economic displacement implemented by the Client, a comparison of implementation outcomes against agreed objectives, a conclusion as to whether the monitoring process can be ended and, where necessary, a Corrective Action Plan listing outstanding actions necessary to met the objectives.

[19] Such claims could be derived from adverse possession or from customary or traditional tenure arrangements.

[20] Where a project results in both physical and economic displacement, the requirements of paragraphs 25 and 26 (Economic Displacement) should be incorporated into the Resettlement Action Plan or Framework (i.e., there is no need to have a separate Resettlement Action Plan and Livelihood Restoration Plan).

in kind should be considered in lieu of cash. Cash compensation levels should be sufficient to replace the lost land and other assets at full replacement cost in local markets.[21]

22. In the case of physically displaced persons under paragraph 17 (iii), the client will offer them a choice of options for adequate housing with security of tenure so that they can resettle legally without having to face the risk of forced eviction. Where these displaced persons own and occupy structures, the client will compensate them for the loss of assets other than land, such as dwellings and other improvements to the land, at full replacement cost, provided that these persons have been occupying the project area prior to the cut-off date for eligibility. Based on consultation with such displaced persons, the client will provide relocation assistance sufficient for them to restore their standard of living at an adequate alternative site.[22]

23. The client is not required to compensate or assist those who encroach on the project area after the cut-off date for eligibility, provided the cut-off date has been clearly established and made public.

24. Forced evictions[23] will not be carried out except in accordance with law and the requirements of this Performance Standard.

Economic Displacement

25. In the case of projects involving economic displacement only, the client will develop a Livelihood Restoration Plan to compensate affected persons and/or communities and offer other assistance that meet the objectives of this Performance Standard. The Livelihood Restoration Plan will establish the entitlements of affected persons and/or communities and will ensure that these are provided in a transparent, consistent, and equitable manner. The mitigation of economic displacement will be considered complete when affected persons or communities have received compensation and other assistance according to the requirements of the Livelihood Restoration Plan and this Performance Standard, and are deemed to have been provided with adequate opportunity to reestablish their livelihoods.

26. If land acquisition or restrictions on land use result in economic displacement defined as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced, the client will meet the requirements in paragraphs 27–29 below, as applicable.

27. Economically displaced persons who face loss of assets or access to assets will be compensated for such loss at full replacement cost.

- In cases where land acquisition or restrictions on land use affect commercial structures, affected business owners will be compensated for the cost of reestablishing commercial activities elsewhere, for lost net income during the

[21] Payment of cash compensation for lost assets may be appropriate where (i) livelihoods are not land-based; (ii) livelihoods are land-based but the land taken for the project is a small fraction of the affected asset and the residual land is economically viable; or (iii) active markets for land, housing, and labor exist, displaced persons use such markets, and there is sufficient supply of land and housing.

[22] Relocation of informal settlers in urban areas may involve trade-offs. For example, the relocated families may gain security of tenure, but they may lose advantages of location. Changes in location that may affect livelihood opportunities should be addressed in accordance with the principles of this Performance Standard (see in particular paragraph 25).

[23] The permanent or temporary removal against the will of individuals, families, and/or communities from the homes and/or lands which they occupy without the provision of, and access to, appropriate forms of legal and other protection.

period of transition, and for the costs of the transfer and reinstallation of the plant, machinery, or other equipment.

- In cases affecting persons with legal rights or claims to land which are recognized or recognizable under national law (see paragraph 17 (i) and (ii)), replacement property (e.g., agricultural or commercial sites) of equal or greater value will be provided, or, where appropriate, cash compensation at full replacement cost.
- Economically displaced persons who are without legally recognizable claims to land (see paragraph 17 (iii)) will be compensated for lost assets other than land (such as crops, irrigation infrastructure and other improvements made to the land), at full replacement cost. The client is not required to compensate or assist opportunistic settlers who encroach on the project area after the cut-off date for eligibility.

28. In addition to compensation for lost assets, if any, as required under paragraph 27, economically displaced persons whose livelihoods or income levels are adversely affected will also be provided opportunities to improve, or at least restore, their means of income-earning capacity, production levels, and standards of living:

- For persons whose livelihoods are land-based, replacement land that has a combination of productive potential, locational advantages, and other factors at least equivalent to that being lost should be offered as a matter of priority.
- For persons whose livelihoods are natural resource-based and where project-related restrictions on access envisaged in paragraph 5 apply, implementation of measures will be made to either allow continued access to affected resources or provide access to alternative resources with equivalent livelihood-earning potential and accessibility. Where appropriate, benefits and compensation associated with natural resource usage may be collective in nature rather than directly oriented towards individuals or households.
- If circumstances prevent the client from providing land or similar resources as described above, alternative income earning opportunities may be provided, such as credit facilities, training, cash, or employment opportunities. Cash compensation alone, however, is frequently insufficient to restore livelihoods.

29. Transitional support should be provided as necessary to all economically displaced persons, based on a reasonable estimate of the time required to restore their income-earning capacity, production levels, and standards of living.

Private Sector Responsibilities Under Government-Managed Resettlement

30. Where land acquisition and resettlement are the responsibility of the government, the client will collaborate with the responsible government agency, to the extent permitted by the agency, to achieve outcomes that are consistent with this Performance Standard. In addition, where government capacity is limited, the client will play an active role during resettlement planning, implementation, and monitoring, as described below.

31. In the case of acquisition of land rights or access to land through compulsory means or negotiated settlements involving physical displacement, the client will identify and describe[24] government resettlement measures. If these measures do not meet the relevant requirements of this Performance Standard, the client will prepare a Supplemental Resettlement Plan that, together with

[24] Government documents, where available, may be used to identify such measures.

the documents prepared by the responsible government agency, will address the relevant requirements of this Performance Standard (the General Requirements and requirements for Physical Displacement and Economic Displacement above). The client will need to include in its Supplemental Resettlement Plan, at a minimum (i) identification of affected people and impacts; (ii) a description of regulated activities, including the entitlements of displaced persons provided under applicable national laws and regulations; (iii) the supplemental measures to achieve the requirements of this Performance Standard as described in paragraphs 19–29 in a way that is permitted by the responsible agency and implementation time schedule; and (iv) the financial and implementation responsibilities of the client in the execution of its Supplemental Resettlement Plan.

32. In the case of projects involving economic displacement only, the client will identify and describe the measures that the responsible government agency plans to use to compensate Affected Communities and persons. If these measures do not meet the relevant requirements of this Performance Standard, the client will develop an Environmental and Social Action Plan to complement government action. This may include additional compensation for lost assets, and additional efforts to restore lost livelihoods where applicable.

Performance Standard 6

Biodiversity Conservation and Sustainable Management of Living Natural Resources

January 1, 2012

Introduction

1. Performance Standard 6 recognizes that protecting and conserving biodiversity, maintaining ecosystem services, and sustainably managing living natural resources are fundamental to sustainable development. The requirements set out in this Performance Standard have been guided by the Convention on Biological Diversity, which defines biodiversity as "the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part; this includes diversity within species, between species, and of ecosystems."

2. Ecosystem services are the benefits that people, including businesses, derive from ecosystems. Ecosystem services are organized into four types: (i) provisioning services, which are the products people obtain from ecosystems; (ii) regulating services, which are the benefits people obtain from the regulation of ecosystem processes; (iii) cultural services, which are the nonmaterial benefits people obtain from ecosystems; and (iv) supporting services, which are the natural processes that maintain the other services.[1]

3. Ecosystem services valued by humans are often underpinned by biodiversity. Impacts on biodiversity can therefore often adversely affect the delivery of ecosystem services. This Performance Standard addresses how clients can sustainably manage and mitigate impacts on biodiversity and ecosystem services throughout the project's lifecycle.

Objectives

- To protect and conserve biodiversity.
- To maintain the benefits from ecosystem services.
- To promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities.

Scope of Application

4. The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System (ESMS), the elements of which are outlined in Performance Standard 1.

5. Based on the risks and impacts identification process, the requirements of this Performance Standard are applied to projects (i) located in modified, natural, and critical habitats; (ii) that potentially impact on or are dependent on ecosystem services over which the client has direct management control or significant influence; or (iii) that include the production of living natural resources (e.g., agriculture, animal husbandry, fisheries, forestry).

[1] Examples are as follows: (i) provisioning services may include food, freshwater, timber, fibers, medicinal plants; (ii) regulating services may include surface water purification, carbon storage and sequestration, climate regulation, protection from natural hazards; (iii) cultural services may include natural areas that are sacred sites and areas of importance for recreation and aesthetic enjoyment; and (iv) supporting services may include soil formation, nutrient cycling, primary production.

Requirements

General

6. The risks and impacts identification process as set out in Performance Standard 1 should consider direct and indirect project-related impacts on biodiversity and ecosystem services and identify any significant residual impacts. This process will consider relevant threats to biodiversity and ecosystem services, especially focusing on habitat loss, degradation and fragmentation, invasive alien species, overexploitation, hydrological changes, nutrient loading, and pollution. It will also take into account the differing values attached to biodiversity and ecosystem services by Affected Communities and, where appropriate, other stakeholders. Where paragraphs 13–19 are applicable, the client should consider project-related impacts across the potentially affected landscape or seascape.

7. As a matter of priority, the client should seek to avoid impacts on biodiversity and ecosystem services. When avoidance of impacts is not possible, measures to minimize impacts and restore biodiversity and ecosystem services should be implemented. Given the complexity in predicting project impacts on biodiversity and ecosystem services over the long term, the client should adopt a practice of adaptive management in which the implementation of mitigation and management measures are responsive to changing conditions and the results of monitoring throughout the project's lifecycle.

8. Where paragraphs 13–15 are applicable, the client will retain competent professionals to assist in conducting the risks and impacts identification process. Where paragraphs 16–19 are applicable, the client should retain external experts with appropriate regional experience to assist in the development of a mitigation hierarchy that complies with this Performance Standard and to verify the implementation of those measures.

Protection and Conservation of Biodiversity

9. Habitat is defined as a terrestrial, freshwater, or marine geographical unit or airway that supports assemblages of living organisms and their interactions with the non-living environment. For the purposes of implementation of this Performance Standard, habitats are divided into modified, natural, and critical. Critical habitats are a subset of modified or natural habitats.

10. For the protection and conservation of biodiversity, the mitigation hierarchy includes biodiversity offsets, which may be considered only after appropriate avoidance, minimization, and restoration measures have been applied.[2] A biodiversity offset should be designed and implemented to achieve measurable conservation outcomes[3] that can reasonably be expected to result in no net loss and preferably a net gain of biodiversity; however, a net gain is required in critical habitats. The design of a biodiversity offset must adhere to the "like-for-like or better" principle[4] and must be carried out in

[2] Biodiversity offsets are measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development and persisting after appropriate avoidance, minimization and restoration measures have been taken.

[3] Measurable conservation outcomes for biodiversity must be demonstrated in situ (on-the-ground) and on an appropriate geographic scale (e.g., local, landscape-level, national, regional).

[4] The principle of "like-for-like or better" indicates that biodiversity offsets must be designed to conserve the same biodiversity values that are being impacted by the project (an "in-kind" offset). In certain situations, however, areas of biodiversity to be impacted by the project may be neither a national nor a local priority, and there may be other areas of biodiversity with like values that are a higher priority for conservation and sustainable use and under imminent threat or need of protection or effective management. In these situations, it may be appropriate to consider an "out-of-kind" offset that involves "trading up" (i.e., where the offset targets biodiversity of higher

alignment with best available information and current practices. When a client is considering the development of an offset as part of the mitigation strategy, external experts with knowledge in offset design and implementation must be involved.

Modified Habitat

11. Modified habitats are areas that may contain a large proportion of plant and/or animal species of non-native origin, and/or where human activity has substantially modified an area's primary ecological functions and species composition.[5] Modified habitats may include areas managed for agriculture, forest plantations, reclaimed[6] coastal zones, and reclaimed wetlands.

12. This Performance Standard applies to those areas of modified habitat that include significant biodiversity value, as determined by the risks and impacts identification process required in Performance Standard 1. The client should minimize impacts on such biodiversity and implement mitigation measures as appropriate.

Natural Habitat

13. Natural habitats are areas composed of viable assemblages of plant and/or animal species of largely native origin, and/or where human activity has not essentially modified an area's primary ecological functions and species composition.

14. The client will not significantly convert or degrade[7] natural habitats, unless all of the following are demonstrated:

- No other viable alternatives within the region exist for development of the project on modified habitat;
- Consultation has established the views of stakeholders, including Affected Communities, with respect to the extent of conversion and degradation;[8] and
- Any conversion or degradation is mitigated according to the mitigation hierarchy.

15. In areas of natural habitat, mitigation measures will be designed to achieve no net loss[9] of biodiversity where feasible. Appropriate actions include:

- Avoiding impacts on biodiversity through the identification and protection of set-asides;[10]

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priority than that affected by the project) that will, for critical habitats, meet the requirements of paragraph 17 of this Performance Standard.

[5] This excludes habitat that has been converted in anticipation of the project.

[6] Reclamation as used in this context is the process of creating new land from sea or other aquatic areas for productive use.

[7] Significant conversion or degradation is (i) the elimination or severe diminution of the integrity of a habitat caused by a major and/or long-term change in land or water use; or (ii) a modification that substantially minimizes the habitat's ability to maintain viable populations of its native species.

[8] Conducted as part of the stakeholder engagement and consultation process, as described in Performance Standard 1.

[9] No net loss is defined as the point at which project-related impacts on biodiversity are balanced by measures taken to avoid and minimize the project's impacts, to undertake on-site restoration and finally to offset significant residual impacts, if any, on an appropriate geographic scale (e.g., local, landscape-level, national, regional).

[10] Set-asides are land areas within the project site, or areas over which the client has management control, that are excluded from development and are targeted for the implementation of conservation enhancement measures. Set-asides will likely contain significant biodiversity values and/or provide ecosystem services of significance at the local, national and/or regional level. Set-asides should be defined using internationally recognized approaches or methodologies (e.g., High Conservation Value, systematic conservation planning).

- Implementing measures to minimize habitat fragmentation, such as biological corridors;
- Restoring habitats during operations and/or after operations; and
- Implementing biodiversity offsets.

Critical Habitat

16. Critical habitats are areas with high biodiversity value, including (i) habitat of significant importance to Critically Endangered and/or Endangered[11] species; (ii) habitat of significant importance to endemic and/or restricted-range species; (iii) habitat supporting globally significant concentrations of migratory species and/or congregatory species; (iv) highly threatened and/or unique ecosystems; and/or (v) areas associated with key evolutionary processes.

17. In areas of critical habitat, the client will not implement any project activities unless all of the following are demonstrated:

- No other viable alternatives within the region exist for development of the project on modified or natural habitats that are not critical;
- The project does not lead to measurable adverse impacts on those biodiversity values for which the critical habitat was designated, and on the ecological processes supporting those biodiversity values;[12]
- The project does not lead to a net reduction in the global and/or national/regional population[13] of any Critically Endangered or Endangered species over a reasonable period of time;[14] and
- A robust, appropriately designed, and long-term biodiversity monitoring and evaluation program is integrated into the client's management program.

18. In such cases where a client is able to meet the requirements defined in paragraph 17, the project's mitigation strategy will be described in a Biodiversity Action Plan and will be designed to achieve net gains[15] of those biodiversity values for which the critical habitat was designated.

[11] As listed on the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species. The determination of critical habitat based on other listings is as follows: (i) If the species is listed nationally / regionally as critically endangered or endangered, in countries that have adhered to IUCN guidance, the critical habitat determination will be made on a project by project basis in consultation with competent professionals; and (ii) in instances where nationally or regionally listed species' categorizations do not correspond well to those of the IUCN (e.g., some countries more generally list species as "protected" or "restricted"), an assessment will be conducted to determine the rationale and purpose of the listing. In this case, the critical habitat determination will be based on such an assessment.

[12] Biodiversity values and their supporting ecological processes will be determined on an ecologically relevant scale.

[13] Net reduction is a singular or cumulative loss of individuals that impacts on the species' ability to persist at the global and/or regional/national scales for many generations or over a long period of time. The scale (i.e., global and/or regional/national) of the potential net reduction is determined based on the species' listing on either the (global) IUCN Red List and/or on regional/national lists. For species listed on both the (global) IUCN Red List and the national/regional lists, the net reduction will be based on the national/regional population.

[14] The timeframe in which clients must demonstrate "no net reduction" of Critically Endangered and Endangered species will be determined on a case-by-case basis in consultation with external experts.

[15] Net gains are additional conservation outcomes that can be achieved for the biodiversity values for which the critical habitat was designated. Net gains may be achieved through the development of a biodiversity offset and/or, in instances where the client could meet the requirements of paragraph 17 of this Performance Standard without a biodiversity offset, the client should achieve net gains through the implementation of programs that could be implemented in situ (on-the-ground) to enhance habitat, and protect and conserve biodiversity.

19. In instances where biodiversity offsets are proposed as part of the mitigation strategy, the client must demonstrate through an assessment that the project's significant residual impacts on biodiversity will be adequately mitigated to meet the requirements of paragraph 17.

Legally Protected and Internationally Recognized Areas

20. In circumstances where a proposed project is located within a legally protected area[16] or an internationally recognized area,[17] the client will meet the requirements of paragraphs 13 through 19 of this Performance Standard, as applicable. In addition, the client will:

- Demonstrate that the proposed development in such areas is legally permitted;
- Act in a manner consistent with any government recognized management plans for such areas;
- Consult protected area sponsors and managers, Affected Communities, Indigenous Peoples and other stakeholders on the proposed project, as appropriate; and
- Implement additional programs, as appropriate, to promote and enhance the conservation aims and effective management of the area.[18]

Invasive Alien Species

21. Intentional or accidental introduction of alien, or non-native, species of flora and fauna into areas where they are not normally found can be a significant threat to biodiversity, since some alien species can become invasive, spreading rapidly and out-competing native species.

22. The client will not intentionally introduce any new alien species (not currently established in the country or region of the project) unless this is carried out in accordance with the existing regulatory framework for such introduction. Notwithstanding the above, the client will not deliberately introduce any alien species with a high risk of invasive behavior regardless of whether such introductions are permitted under the existing regulatory framework. All introductions of alien species will be subject to a risk assessment (as part of the client's environmental and social risks and impacts identification process) to determine the potential for invasive behavior. The client will implement measures to avoid the potential for accidental or unintended introductions including the transportation of substrates and vectors (such as soil, ballast, and plant materials) that may harbor alien species.

23. Where alien species are already established in the country or region of the proposed project, the client will exercise diligence in not spreading them into areas in which they have not already been established. As practicable, the client should take measures to eradicate such species from the natural habitats over which they have management control.

Management of Ecosystem Services

24. Where a project is likely to adversely impact ecosystem services, as determined by the risks and impacts identification process, the client will conduct a systematic review to identify priority

[16] This Performance Standard recognizes legally protected areas that meet the IUCN definition: "A clearly defined geographical space, recognized, dedicated and managed, through legal or other effective means, to achieve the long-term conservation of nature with associated ecosystem services and cultural values." For the purposes of this Performance Standard, this includes areas proposed by governments for such designation.

[17] Exclusively defined as UNESCO Natural World Heritage Sites, UNESCO Man and the Biosphere Reserves, Key Biodiversity Areas, and wetlands designated under the Convention on Wetlands of International Importance (the Ramsar Convention).

[18] Implementing additional programs may not be necessary for projects that do not create a new footprint.

ecosystem services. Priority ecosystem services are two-fold: (i) those services on which project operations are most likely to have an impact and, therefore, which result in adverse impacts to Affected Communities; and/or (ii) those services on which the project is directly dependent for its operations (e.g., water). When Affected Communities are likely to be impacted, they should participate in the determination of priority ecosystem services in accordance with the stakeholder engagement process as defined in Performance Standard 1.

25. With respect to impacts on priority ecosystem services of relevance to Affected Communities and where the client has direct management control or significant influence over such ecosystem services, adverse impacts should be avoided. If these impacts are unavoidable, the client will minimize them and implement mitigation measures that aim to maintain the value and functionality of priority services. With respect to impacts on priority ecosystem services on which the project depends, clients should minimize impacts on ecosystem services and implement measures that increase resource efficiency of their operations, as described in Performance Standard 3. Additional provisions for ecosystem services are included in Performance Standards 4, 5, 7, and 8.[19]

Sustainable Management of Living Natural Resources

26. Clients who are engaged in the primary production of living natural resources, including natural and plantation forestry, agriculture, animal husbandry, aquaculture, and fisheries, will be subject to the requirements of paragraphs 26 through 30, in addition to the rest of this Performance Standard. Where feasible, the client will locate land-based agribusiness and forestry projects on unforested land or land already converted. Clients who are engaged in such industries will manage living natural resources in a sustainable manner, through the application of industry-specific good management practices and available technologies. Where such primary production practices are codified in globally, regionally, or nationally recognized standards, the client will implement sustainable management practices to one or more relevant and credible standards as demonstrated by independent verification or certification.

27. Credible globally, regionally, or nationally recognized standards for sustainable management of living natural resources are those which (i) are objective and achievable; (ii) are founded on a multi-stakeholder consultative process; (iii) encourage step-wise and continual improvements; and (iv) provide for independent verification or certification through appropriate accredited bodies for such standards.[20]

28. Where relevant and credible standard(s) exist, but the client has not yet obtained independent verification or certification to such standard(s), the client will conduct a pre-assessment of its conformity to the applicable standard(s) and take actions to achieve such verification or certification over an appropriate period of time.

29. In the absence of a relevant and credible global, regional, or national standard for the particular living natural resource in the country concerned, the client will:

[19] Ecosystem service references are located in Performance Standard 4, paragraph 8; Performance Standard 5, paragraphs 5 and 25–29; Performance Standard 7, paragraphs 13–17 and 20; and Performance Standard 8, paragraph 11.

[20] A credible certification system would be one which is independent, cost-effective, based on objective and measurable performance standards and developed through consultation with relevant stakeholders, such as local people and communities, Indigenous Peoples, and civil society organizations representing consumer, producer and conservation interests. Such a system has fair, transparent and independent decision-making procedures that avoid conflicts of interest.

- Commit to applying good international industry operating principles, management practices, and technologies; and
- Actively engage and support the development of a national standard, where relevant, including studies that contribute to the definition and demonstration of sustainable practices.

Supply Chain

30. Where a client is purchasing primary production (especially but not exclusively food and fiber commodities) that is known to be produced in regions where there is a risk of significant conversion of natural and/or critical habitats, systems and verification practices will be adopted as part of the client's ESMS to evaluate its primary suppliers.[21] The systems and verification practices will (i) identify where the supply is coming from and the habitat type of this area; (ii) provide for an ongoing review of the client's primary supply chains; (iii) limit procurement to those suppliers that can demonstrate that they are not contributing to significant conversion of natural and/or critical habitats (this may be demonstrated by delivery of certified product, or progress towards verification or certification under a credible scheme in certain commodities and/or locations); and (iv) where possible, require actions to shift the client's primary supply chain over time to suppliers that can demonstrate that they are not significantly adversely impacting these areas. The ability of the client to fully address these risks will depend upon the client's level of management control or influence over its primary suppliers.

[21] Primary suppliers are those suppliers who, on an ongoing basis, provide the majority of living natural resources, goods, and materials essential for the core business processes of the project.

Performance Standard 7
Indigenous Peoples

January 1, 2012

Introduction

1. Performance Standard 7 recognizes that Indigenous Peoples, as social groups with identities that are distinct from mainstream groups in national societies, are often among the most marginalized and vulnerable segments of the population. In many cases, their economic, social, and legal status limits their capacity to defend their rights to, and interests in, lands and natural and cultural resources, and may restrict their ability to participate in and benefit from development. Indigenous Peoples are particularly vulnerable if their lands and resources are transformed, encroached upon, or significantly degraded. Their languages, cultures, religions, spiritual beliefs, and institutions may also come under threat. As a consequence, Indigenous Peoples may be more vulnerable to the adverse impacts associated with project development than non-indigenous communities. This vulnerability may include loss of identity, culture, and natural resource-based livelihoods, as well as exposure to impoverishment and diseases.

2. Private sector projects can create opportunities for Indigenous Peoples to participate in, and benefit from project-related activities that may help them fulfill their aspiration for economic and social development. Furthermore, Indigenous Peoples may play a role in sustainable development by promoting and managing activities and enterprises as partners in development. Government often plays a central role in the management of Indigenous Peoples' issues, and clients should collaborate with the responsible authorities in managing the risks and impacts of their activities.[1]

Objectives

- To ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples.
- To 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.
- To promote sustainable development benefits and opportunities for Indigenous Peoples in a culturally appropriate manner.
- To establish and maintain an ongoing relationship based on Informed Consultation and Participation (ICP) with the Indigenous Peoples affected by a project throughout the project's life-cycle.
- To ensure the Free, Prior, and Informed Consent (FPIC) of the Affected Communities of Indigenous Peoples when the circumstances described in this Performance Standard are present.
- To respect and preserve the culture, knowledge, and practices of Indigenous Peoples.

Scope of Application

3. The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System, the elements of which are outlined in Performance Standard 1.

[1] In addition to meeting the requirements under this Performance Standard, clients must comply with applicable national law, including those laws implementing host country obligations under international law.

4. There is no universally accepted definition of "Indigenous Peoples." Indigenous Peoples may be referred to in different countries by such terms as "Indigenous ethnic minorities," "aboriginals," "hill tribes," "minority nationalities," "scheduled tribes," "first nations," or "tribal groups."

5. In this Performance Standard, the term "Indigenous Peoples" is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

- Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others;
- Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories;
- Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture; or
- A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.

6. This Performance Standard applies to communities or groups of Indigenous Peoples who maintain a collective attachment, i.e., whose identity as a group or community is linked, to distinct habitats or ancestral territories and the natural resources therein. It may also apply to communities or groups that have lost collective attachment to distinct habitats or ancestral territories in the project area, occurring within the concerned group members' lifetime, because of forced severance, conflict, government resettlement programs, dispossession of their lands, natural disasters, or incorporation of such territories into an urban area.

7. The client may be required to seek inputs from competent professionals to ascertain whether a particular group is considered as Indigenous Peoples for the purpose of this Performance Standard.

Requirements

General

Avoidance of Adverse Impacts

8. The client will identify, through an environmental and social risks and impacts assessment process, all communities of Indigenous Peoples within the project area of influence who may be affected by the project, as well as the nature and degree of the expected direct and indirect economic, social, cultural (including cultural heritage[2]), and environmental impacts on them.

9. Adverse impacts on Affected Communities of Indigenous Peoples should be avoided where possible. Where alternatives have been explored and adverse impacts are unavoidable, the client will minimize, restore, and/or compensate for these impacts in a culturally appropriate manner commensurate with the nature and scale of such impacts and the vulnerability of the Affected Communities of Indigenous Peoples. The client's proposed actions will be developed with the ICP of the Affected Communities of Indigenous Peoples and contained in a time-bound plan, such as an Indigenous Peoples Plan, or a broader community development plan with separate components for Indigenous Peoples.[3]

[2] Additional requirements on protection of cultural heritage are set out in Performance Standard 8.

[3] The determination of the appropriate plan may require the input of competent professionals. A community development plan may be appropriate in circumstances where Indigenous Peoples are a part of larger Affected Communities.

Participation and Consent

10. The client will undertake an engagement process with the Affected Communities of Indigenous Peoples as required in Performance Standard 1. This engagement process includes stakeholder analysis and engagement planning, disclosure of information, consultation, and participation, in a culturally appropriate manner. In addition, this process will:

- Involve Indigenous Peoples' representative bodies and organizations (e.g., councils of elders or village councils), as well as members of the Affected Communities of Indigenous Peoples; and
- Provide sufficient time for Indigenous Peoples' decision-making processes.[4]

11. Affected Communities of Indigenous Peoples may be particularly vulnerable to the loss of, alienation from or exploitation of their land and access to natural and cultural resources.[5] In recognition of this vulnerability, in addition to the General Requirements of this Performance Standard, the client will obtain the FPIC of the Affected Communities of Indigenous Peoples in the circumstances described in paragraphs 13–17 of this Performance Standard. FPIC applies to project design, implementation, and expected outcomes related to impacts affecting the communities of Indigenous Peoples. When any of these circumstances apply, the client will engage external experts to assist in the identification of the project risks and impacts.

12. There is no universally accepted definition of FPIC. For the purposes of Performance Standards 1, 7 and 8, "FPIC" has the meaning described in this paragraph. FPIC builds on and expands the process of ICP described in Performance Standard 1 and will be established through good faith negotiation between the client and the Affected Communities of Indigenous Peoples. The client will document: (i) the mutually accepted process between the client and Affected Communities of Indigenous Peoples, and (ii) evidence of agreement between the parties as the outcome of the negotiations. FPIC does not necessarily require unanimity and may be achieved even when individuals or groups within the community explicitly disagree.

Circumstances Requiring Free, Prior, and Informed Consent

Impacts on Lands and Natural Resources Subject to Traditional Ownership or Under Customary Use

13. Indigenous Peoples are often closely tied to their lands and related natural resources.[6] Frequently, these lands are traditionally owned or under customary use.[7] While Indigenous Peoples may not possess legal title to these lands as defined by national law, their use of these lands, including seasonal or cyclical use, for their livelihoods, or cultural, ceremonial, and spiritual purposes that define their identity and community, can often be substantiated and documented.

[4] Internal decision making processes are generally but not always collective in nature. There may be internal dissent, and decisions may be challenged by some in the community. The consultation process should be sensitive to such dynamics and allow sufficient time for internal decision making processes to reach conclusions that are considered legitimate by the majority of the concerned participants.

[5] Natural resources and natural areas with cultural value referred to in this Performance Standard are equivalent to ecosystem provisioning and cultural services as described in Performance Standard 6.

[6] Examples include marine and aquatic resources timber, and non-timber forest products, medicinal plants, hunting and gathering grounds, and grazing and cropping areas. Natural resource assets, as referred to in this Performance Standard, are equivalent to provisioning ecosystem services as described in Performance Standard 6.

[7] The acquisition and/or leasing of lands with legal title is addressed in Performance Standard 5: Land Acquisition and Involuntary Resettlement.

14. If the client proposes to locate a project on, or commercially develop natural resources on lands traditionally owned by, or under the customary use of, Indigenous Peoples, and adverse impacts[8] can be expected, the client will take the following steps:

- Document efforts to avoid and otherwise minimize the area of land proposed for the project;
- Document efforts to avoid and otherwise minimize impacts on natural resources and natural areas of importance[9] to Indigenous People;
- Identify and review all property interests and traditional resource uses prior to purchasing or leasing land;
- Assess and document the Affected Communities of Indigenous Peoples' resource use without prejudicing any Indigenous Peoples' land claim.[10] The assessment of land and natural resource use should be gender inclusive and specifically consider women's role in the management and use of these resources;
- Ensure that Affected Communities of Indigenous Peoples are informed of their land rights under national law, including any national law recognizing customary use rights; and
- Offer Affected Communities of Indigenous Peoples compensation and due process in the case of commercial development of their land and natural resources, together with culturally appropriate sustainable development opportunities, including:
  - Providing land-based compensation or compensation-in-kind in lieu of cash compensation where feasible.[11]
  - Ensuring continued access to natural resources, identifying the equivalent replacement resources, or, as a last option, providing compensation and identifying alternative livelihoods if project development results in the loss of access to and the loss of natural resources independent of project land acquisition.
  - Ensuring fair and equitable sharing of benefits associated with project usage of the resources where the client intends to utilize natural resources that are central to the identity and livelihood of Affected Communities of Indigenous People and their usage thereof exacerbates livelihood risk.
  - Providing Affected Communities of Indigenous Peoples with access, usage, and transit on land it is developing subject to overriding health, safety, and security considerations.

Relocation of Indigenous Peoples from Lands and Natural Resources Subject to Traditional Ownership or Under Customary Use

15. The client will consider feasible alternative project designs to avoid the relocation of Indigenous Peoples from communally held[12] lands and natural resources subject to traditional ownership or

[8] Such adverse impacts may include impacts from loss of access to assets or resources or restrictions on land use resulting from project activities.

[9] "Natural resources and natural areas of importance" as referred to in this Performance Standard are equivalent to priority ecosystem services as defined in Performance Standard 6. They refer to those services over which the client has direct management control or significant influence, and those services most likely to be sources of risk in terms of impacts on Affected Communities of Indigenous Peoples.

[10] While this Performance Standard requires substantiation and documentation of the use of such land, clients should also be aware that the land may already be under alternative use, as designated by the host government.

[11] If circumstances prevent the client from offering suitable replacement land, the client must provide verification that such is the case. Under such circumstances, the client will provide non land-based income-earning opportunities over and above cash compensation to the Affected Communities of Indigenous Peoples.

under customary use. If such relocation is unavoidable the client will not proceed with the project unless FPIC has been obtained as described above. Any relocation of Indigenous Peoples will be consistent with the requirements of Performance Standard 5. Where feasible, the relocated Indigenous Peoples should be able to return to their traditional or customary lands, should the cause of their relocation cease to exist.

Critical Cultural Heritage

16. Where a project may significantly impact on critical cultural heritage[13] that is essential to the identity and/or cultural, ceremonial, or spiritual aspects of Indigenous Peoples lives, priority will be given to the avoidance of such impacts. Where significant project impacts on critical cultural heritage are unavoidable, the client will obtain the FPIC of the Affected Communities of Indigenous Peoples.

17. Where a project proposes to use the cultural heritage including knowledge, innovations, or practices of Indigenous Peoples for commercial purposes, the client will inform the Affected Communities of Indigenous Peoples of (i) their rights under national law; (ii) the scope and nature of the proposed commercial development; (iii) the potential consequences of such development; and (iv) obtain their FPIC. The client will also ensure fair and equitable sharing of benefits from commercialization of such knowledge, innovation, or practice, consistent with the customs and traditions of the Indigenous Peoples.

Mitigation and Development Benefits

18. The client and the Affected Communities of Indigenous Peoples will identify mitigation measures in alignment with the mitigation hierarchy described in Performance Standard 1 as well as opportunities for culturally appropriate and sustainable development benefits. The client will ensure the timely and equitable delivery of agreed measures to the Affected Communities of Indigenous Peoples.

19. The determination, delivery, and distribution of compensation and other benefit sharing measures to the Affected Communities of Indigenous Peoples will take account of the laws, institutions, and customs of these communities as well as their level of interaction with mainstream society. Eligibility for compensation can either be individually or collectively-based, or be a combination of both.[14] Where compensation occurs on a collective basis, mechanisms that promote the effective delivery and distribution of compensation to all eligible members of the group will be defined and implemented.

20. Various factors including, but not limited to, the nature of the project, the project context and the vulnerability of the Affected Communities of Indigenous Peoples will determine how these communities should benefit from the project. Identified opportunities should aim to address the goals

[12] Typically, Indigenous Peoples claim rights and access to, and use of land and resources through traditional or customary systems, many of which entail communal property rights. These traditional claims to land and resources may not be recognized under national laws. Where members of the Affected Communities of Indigenous Peoples individually hold legal title, or where the relevant national law recognizes customary rights for individuals, the requirements of Performance Standard 5 will apply, rather than the requirements under paragraph 17 of this Performance Standard.

[13] Includes natural areas with cultural and/or spiritual value such as sacred groves, sacred bodies of water and waterways, sacred trees, and sacred rocks. Natural areas with cultural value are equivalent to priority ecosystem cultural services as defined in Performance Standard 6.

[14] Where control of resources, assets and decision making are predominantly collective in nature, efforts will be made to ensure that, where possible, benefits and compensation are collective, and take account of intergenerational differences and needs.

and preferences of the Indigenous Peoples including improving their standard of living and livelihoods in a culturally appropriate manner, and to foster the long-term sustainability of the natural resources on which they depend.

Private Sector Responsibilities Where Government is Responsible for Managing Indigenous Peoples Issues

21. Where the government has a defined role in the management of Indigenous Peoples issues in relation to the project, the client will collaborate with the responsible government agency, to the extent feasible and permitted by the agency, to achieve outcomes that are consistent with the objectives of this Performance Standard. In addition, where government capacity is limited, the client will play an active role during planning, implementation, and monitoring of activities to the extent permitted by the agency.

22. The client will prepare a plan that, together with the documents prepared by the responsible government agency, will address the relevant requirements of this Performance Standard. The client may need to include (i) the plan, implementation, and documentation of the process of ICP and engagement and FPIC where relevant; (ii) a description of the government-provided entitlements of affected Indigenous Peoples; (iii) the measures proposed to bridge any gaps between such entitlements, and the requirements of this Performance Standard; and (iv) the financial and implementation responsibilities of the government agency and/or the client.

Performance Standard 8
Cultural Heritage

January 1, 2012

Introduction

1. Performance Standard 8 recognizes the importance of cultural heritage for current and future generations. Consistent with the Convention Concerning the Protection of the World Cultural and Natural Heritage, this Performance Standard aims to ensure that clients protect cultural heritage in the course of their project activities. In addition, the requirements of this Performance Standard on a project's use of cultural heritage are based in part on standards set by the Convention on Biological Diversity.

Objectives

- To protect cultural heritage from the adverse impacts of project activities and support its preservation.
- To promote the equitable sharing of benefits from the use of cultural heritage.

Scope of Application

2. The applicability of this Performance Standard is established during the environmental and social risks and impacts identification process. The implementation of the actions necessary to meet the requirements of this Performance Standard is managed through the client's Environmental and Social Management System (ESMS), the elements of which are outlined in Performance Standard 1. During the project life-cycle, the client will consider potential project impacts to cultural heritage and will apply the provisions of this Performance Standard.

3. For the purposes of this Performance Standard, cultural heritage refers to (i) tangible forms of cultural heritage, such as tangible moveable or immovable objects, property, sites, structures, or groups of structures, having archaeological (prehistoric), paleontological, historical, cultural, artistic, and religious values; (ii) unique natural features or tangible objects that embody cultural values, such as sacred groves, rocks, lakes, and waterfalls; and (iii) certain instances of intangible forms of culture that are proposed to be used for commercial purposes, such as cultural knowledge, innovations, and practices of communities embodying traditional lifestyles.

4. Requirements with respect to tangible forms of cultural heritage are contained in paragraphs 6–16. For requirements with respect to specific instances of intangible forms of cultural heritage described in paragraph 3 (iii) see paragraph 16.

5. The requirements of this Performance Standard apply to cultural heritage regardless of whether or not it has been legally protected or previously disturbed. The requirements of this Performance Standard do not apply to cultural heritage of Indigenous Peoples; Performance Standard 7 describes those requirements.

Requirements

Protection of Cultural Heritage in Project Design and Execution

6. In addition to complying with applicable law on the protection of cultural heritage, including national law implementing the host country's obligations under the Convention Concerning the Protection of the World Cultural and Natural Heritage, the client will identify and protect cultural heritage by ensuring that internationally recognized practices for the protection, field-based study, and documentation of cultural heritage are implemented.

7. Where the risk and identification process determines that there is a chance of impacts to cultural heritage, the client will retain competent professionals to assist in the identification and protection of cultural heritage. The removal of nonreplicable cultural heritage is subject to the additional requirements of paragraph 10 below. In the case of critical cultural heritage, the requirements of paragraphs 13–15 will apply.

Chance Find Procedures

8. The client is responsible for siting and designing a project to avoid significant adverse impacts to cultural heritage. The environmental and social risks and impacts identification process should determine whether the proposed location of a project is in areas where cultural heritage is expected to be found, either during construction or operations. In such cases, as part of the client's ESMS, the client will develop provisions for managing chance finds[1] through a chance find procedure[2] which will be applied in the event that cultural heritage is subsequently discovered. The client will not disturb any chance find further until an assessment by competent professionals is made and actions consistent with the requirements of this Performance Standard are identified.

Consultation

9. Where a project may affect cultural heritage, the client will consult with Affected Communities within the host country who use, or have used within living memory, the cultural heritage for long-standing cultural purposes. The client will consult with the Affected Communities to identify cultural heritage of importance, and to incorporate into the client's decision-making process the views of the Affected Communities on such cultural heritage. Consultation will also involve the relevant national or local regulatory agencies that are entrusted with the protection of cultural heritage.

Community Access

10. Where the client's project site contains cultural heritage or prevents access to previously accessible cultural heritage sites being used by, or that have been used by, Affected Communities within living memory for long-standing cultural purposes, the client will, based on consultations under paragraph 9, allow continued access to the cultural site or will provide an alternative access route, subject to overriding health, safety, and security considerations.

Removal of Replicable Cultural Heritage

11. Where the client has encountered tangible cultural heritage that is replicable[3] and not critical, the client will apply mitigation measures that favor avoidance. Where avoidance is not feasible, the client will apply a mitigation hierarchy as follows:

- Minimize adverse impacts and implement restoration measures, in situ, that ensure maintenance of the value and functionality of the cultural heritage, including maintaining or restoring any ecosystem processes[4] needed to support it;
- Where restoration in situ is not possible, restore the functionality of the cultural heritage, in a different location, including the ecosystem processes needed to support it;

[1] Tangible cultural heritage encountered unexpectedly during project construction or operation.

[2] A chance find procedure is a project-specific procedure that outlines the actions to be taken if previously unknown cultural heritage is encountered.

[3] Replicable cultural heritage is defined as tangible forms of cultural heritage that can themselves be moved to another location or that can be replaced by a similar structure or natural features to which the cultural values can be transferred by appropriate measures. Archeological or historical sites may be considered replicable where the particular eras and cultural values they represent are well represented by other sites and/or structures.

[4] Consistent with requirements in Performance Standard 6 related to ecosystem services and conservation of biodiversity.

- The permanent removal of historical and archeological artifacts and structures is carried out according to the principles of paragraphs 6 and 7 above; and
- Only where minimization of adverse impacts and restoration to ensure maintenance of the value and functionality of the cultural heritage are demonstrably not feasible, and where the Affected Communities are using the tangible cultural heritage for long-standing cultural purposes, compensate for loss of that tangible cultural heritage.

Removal of Non-Replicable Cultural Heritage

12. Most cultural heritage is best protected by preservation in its place, since removal is likely to result in irreparable damage or destruction of the cultural heritage. The client will not remove any nonreplicable cultural heritage,[5] unless all of the following conditions are met:

- There are no technically or financially feasible alternatives to removal;
- The overall benefits of the project conclusively outweigh the anticipated cultural heritage loss from removal; and
- Any removal of cultural heritage is conducted using the best available technique.

Critical Cultural Heritage

13. Critical cultural heritage consists of one or both of the following types of cultural heritage: (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; or (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation.

14. The client should not remove, significantly alter, or damage critical cultural heritage. In exceptional circumstances when impacts on critical cultural heritage are unavoidable, the client will use a process of Informed Consultation and Participation (ICP) of the Affected Communities as described in Performance Standard 1 and which uses a good faith negotiation process that results in a documented outcome. The client will retain external experts to assist in the assessment and protection of critical cultural heritage.

15. Legally protected cultural heritage areas[6] are important for the protection and conservation of cultural heritage, and additional measures are needed for any projects that would be permitted under the applicable national law in these areas. In circumstances where a proposed project is located within a legally protected area or a legally defined buffer zone, the client, in addition to the requirements for critical cultural heritage cited in paragraph 14 above, will meet the following requirements:

- Comply with defined national or local cultural heritage regulations or the protected area management plans;
- Consult the protected area sponsors and managers, local communities and other key stakeholders on the proposed project; and
- Implement additional programs, as appropriate, to promote and enhance the conservation aims of the protected area.

[5] Nonreplicable cultural heritage may relate to the social, economic, cultural, environmental, and climatic conditions of past peoples, their evolving ecologies, adaptive strategies, and early forms of environmental management, where the (i) cultural heritage is unique or relatively unique for the period it represents, or (ii) cultural heritage is unique or relatively unique in linking several periods in the same site.

[6] Examples include world heritage sites and nationally protected areas.

Project's Use of Cultural Heritage

16. Where a project proposes to use the cultural heritage, including knowledge, innovations, or practices of local communities for commercial purposes,[7] the client will inform these communities of (i) their rights under national law; (ii) the scope and nature of the proposed commercial development; and (iii) the potential consequences of such development. The client will not proceed with such commercialization unless it (i) enters into a process of ICP as described in Performance Standard 1 and which uses a good faith negotiation process that results in a documented outcome and (ii) provides for fair and equitable sharing of benefits from commercialization of such knowledge, innovation, or practice, consistent with their customs and traditions.

[7] Examples include, but not limited to, commercialization of traditional medicinal knowledge or other sacred or traditional technique for processing plants, fibers, or metals.

ANNEX C

Access to Information Policy

International Finance Corporation

April 14, 2011

International Finance Corporation
Access to Information Policy

January 1, 2012

IFC Access to Information Policy

January 1, 2012

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IFC Access to Information Policy

January 1, 2012

I. INTRODUCTION

1. This document sets out the policy (Policy)[1] of the International Finance Corporation (IFC) regarding the scope of information that it makes available to the public either as a routine matter or upon request.

2. IFC is an international financial institution established in 1956 by its member countries. IFC is the private sector arm of the World Bank Group[2] and is headquartered in Washington, D.C., United States of America. The World Bank Group's mission is: To fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

3. IFC believes that transparency and accountability are fundamental to fulfilling its development mandate. Transparency is essential to building and maintaining public dialogue and increasing public awareness about IFC's development role and mission. It is also critical for enhancing good governance, accountability, and development effectiveness. Openness promotes engagement with stakeholders, which, in turn, improves the design and implementation of projects and policies, and strengthens development outcomes. This Policy reaffirms and reflects IFC's commitment to enhance transparency about its activities, improve development effectiveness, and promote good governance.

4. IFC encourages its clients to be more transparent about their businesses to help broaden understanding of their specific projects and of private sector development in general. In addition, IFC believes that when clients are committed to transparency and accountability they help promote the long-term profitability of their investments.

5. This Policy is effective as of January 1, 2012, and supersedes the IFC Disclosure of Information Policy (April 2006) in its entirety.[3] This Policy is not an express or implied waiver of IFC's privileges and immunities under its Articles of Agreement, international conventions, or any applicable law, nor does it provide any contractual or other rights to any party.

II. THE POLICY

A. BACKGROUND

6. IFC seeks to provide accurate and timely information regarding its activities to its clients, partners and stakeholders (including Affected Communities[4]), and to other interested parties.

[1] An electronic version of this Policy is posted on IFC's website and includes links to relevant sites referred to herein.

[2] The World Bank Group consists of IFC, the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

[3] Documents prepared by IFC before January 1, 2012, or delivered to IFC pursuant to agreements entered into before January 1, 2012, will continue to be subject to the IFC Disclosure of Information Policy in effect at the time of such preparation or agreement.

[4] Defined in IFC's Policy and Performance Standards on Environmental and Social Sustainability.

7. This Policy reflects the various capacities in which IFC operates, the nature of the information that it receives and prepares in connection with those diverse activities, and the level of disclosure applicable to different types of information. In particular:

(a) As an organization owned by its member countries, IFC is accountable for the use and management of its resources in a manner consistent with its mandate and has an obligation to be responsive to the questions and concerns of its shareholders. In addition, as a development organization, IFC reports regularly and systematically to the public on its activities.

(b) IFC receives information from its clients and other parties that is not publicly available for the purpose of enabling IFC to assess business opportunities, or to monitor and evaluate existing investments or advisory services. IFC respects the confidentiality of any such information.

B. General Principles

8. **IFC's Responsibilities**. Taking into account its roles and responsibilities, IFC makes available information concerning its activities that would enable its clients, partners and stakeholders (including Affected Communities), and other interested members of the public, to understand better, and to engage in informed discussion about, IFC's business activities, the development outcomes and other impacts of its activities, and its overall contribution to development. The information IFC makes available in accordance with these principles can be categorized as:

(a) institutional information about IFC; and

(b) project-level information regarding investments and advisory services supported by IFC.

9. **Client's Responsibilities**. As part of the process of managing the risks and impacts of their investment projects, IFC requires its clients to engage with communities affected by their projects, including through the disclosure of information, in a manner that is consistent with IFC's Policy and Performance Standards on Environmental and Social Sustainability.[5]

10. There is a presumption in favor of disclosure with respect to the information described in paragraph 8 above, absent a compelling reason not to disclose such information. In determining whether any particular information is to be made available by IFC as a routine matter or upon request, IFC first considers whether such information falls within the scope of IFC's responsibilities in paragraph 8 and, if so, then determines whether there is any compelling reason not to disclose all or any part of such information. In making this determination, IFC considers whether the disclosure of information is likely to cause harm to specific parties or interests that outweighs the benefit of disclosure or whether the information contains or makes reference to information described in the list of exceptions below, which are not exhaustive.

C. Exceptions

11. In making its determination of whether or not to disclose information, IFC takes into account the following general considerations:

[5] More information on IFC's Policy and Performance Standards on Environmental and Social Sustainability can be found at www.ifc.org/sustainability.

(a) **Commercially Sensitive and Confidential Information**. Consistent with the practice of commercial banks and of most public sector financial institutions (for their private sector investments), IFC does not disclose to the public financial, business, proprietary or other non-public information about its clients, its member countries or other third parties. To do so would be contrary to the legitimate expectations of such parties, who need to be able to disclose to IFC detailed information without fear of compromising the confidentiality of their projects or other proprietary information in a highly competitive marketplace. Similarly, IFC does not disclose:

(i) Legal documentation or correspondence pertaining to IFC's investments or advisory services, including documents or information relating to negotiations between IFC and its clients or other third parties relating to such investments or advisory services; and

(ii) Board documents or papers relating to specific investments or advisory services projects or platforms.[6]

(b) **Personal Information**. The World Bank Group's Principles of Staff Employment require IFC to establish and maintain appropriate safeguards to respect the personal privacy of staff members and protect the confidentiality of personal information about them. Accordingly, IFC does not provide access to the following information, except to the extent expressly permitted by the Staff Rules:[7]

(i) Personal information, including personal staff records, medical information, and personal communications (including e-mail) of the following individuals and their families: Executive Directors, their Alternates, and their Senior Advisers; the President of the IFC; the Executive Vice-President and CEO of IFC; other IFC officials; and IFC staff and consultants;

(ii) Information relating to staff appointment and selection processes;

(iii) Information relating to proceedings of the IFC's internal conflict resolution mechanisms; and

(iv) Information relating to investigations of allegations of staff misconduct and personal conflicts of interest.

(c) **Communications of Executive Directors' Offices**. IFC does not provide access to:

(i) Communications within and between individual Executive Directors' offices;

(ii) Communications between individual Executive Directors' offices and the member country or countries they represent; and

(iii) Communications between individual Executive Directors' offices and third parties.

[6] An advisory services platform is a multi-donor, multi-year facility intended to support the delivery of multiple advisory services projects in a particular region, business line, sector, or thematic area.

[7] The "Staff Rules" refer to rules set out in the Staff Manual, Section 2, which discusses the WBG's general obligations related to Staff.

(d) **Ethics Committee**. IFC does not provide access to proceedings of the Ethics Committee for Board Officials (unless the Executive Directors initiate a decision to disclose such information).

(e) **Attorney-Client Privilege**. IFC does not provide access to information subject to attorney-client privilege or other applicable legal privileges, including, among other things, communications provided and/or received by the General Counsel, in-house counsel, and other legal advisors.

(f) **Security and Safety**. IFC does not provide access to:

(i) Information whose disclosure would compromise the security of IFC staff and their families, contractors, other individuals, or IFC assets;

(ii) Information about logistical and transport arrangements related to IFC's shipments of its assets and documents and the shipment of staff's personal effects;

(iii) Information whose disclosure is likely to endanger the life, health, or safety of any individual, or the environment; and

(iv) Information relating to arrangements for preserving the safety and security of individuals working with, or for, IFC or to arrangements related to its corporate records and information systems.

(g) **Information Restricted Under Separate Disclosure Regimes**. IFC does not provide access to information whose disclosure is restricted under the separate disclosure regimes of the Independent Evaluation Group (IEG),[8] the Compliance Advisor/Ombudsman (CAO),[9] the Integrity Vice-Presidency (INT),[10] and the World Bank Group's sanctions process and other institutions of the World Bank Group.

(h) **Corporate Administrative Matters**. IFC does not disclose information relating to IFC's corporate administrative matters, including, but not limited to, corporate expenses, procurement, real estate, and other activities.[11]

(i) **Deliberative Information**. IFC, like any institution or group, needs space to consider and debate, away from public scrutiny. It generally operates by consensus, and it needs room to develop that consensus. During the process, it seeks, and takes into account, the input of many stakeholders; but it must preserve the integrity of its deliberative processes by facilitating and safeguarding the free and candid exchange of ideas. Therefore, while IFC makes publicly available certain decisions, results, and agreements that result from its deliberative processes, it does not provide access to the following information:

[8] See IEG's Access to Information Policy, available at www.worldbank.org/ieg.

[9] See the CAO's Operational Guidelines regarding confidentiality and disclosure, available at www.cao-ombudsman.org.

[10] See INT's Access to Information Policy, available at www.worldbank.org/integrity. This includes information gathered, received, or generated by INT in connection with or related to inquiries, investigations, audits, or any other type of INT reviews, programs, products, or outputs, as well as any other information gathered, received, or generated by INT on a confidential basis.

[11] Corporate administrative matters include the pension and other retirement benefit plans of IFC.

(i) Information (including e-mail, notes, letters, memoranda, reports, or other documents) prepared for, or exchanged during the course of, its deliberations with clients, member countries, or other entities with which IFC cooperates;

(ii) Information (including e-mail, notes, letters, memoranda, reports or other documents) prepared for, or exchanged during the course of, its own internal deliberations, including those issued or prepared by IFC's staff, consultants, attorneys, or agents;

(iii) The following records pertaining to Board deliberations:

1. Verbatim transcripts of Board meetings and Board Committee meetings, and the Memoranda of the President that accompany Board papers.
2. Statements of Executive Directors and staff in the context of Board meetings or Board Committee meetings.
3. Reports to the Board from its Committees (Green Sheets) if subsequent Board discussion is expected.[12]
4. Communications and memoranda originating in Executive Directors' offices relating to Board or Board Committee proceedings.
5. Miscellaneous memoranda, opinions, or informal notes distributed to the full Board or to a Board Committee.[13]

(iv) Studies, reports, audits, assessments or analyses prepared to inform IFC's internal decision-making or management directives and procedures prepared as part of IFC's operational processes;[14] and

(v) Audit reports prepared by the Internal Audit Vice-Presidency, except its finalized Annual and Quarterly Activity Reports.

(j) **Certain Financial Information**. IFC does not provide access to information related to its internal treasury operations, except as noted in paragraph 22.

(k) **Violation of National Laws or Other Applicable Regulations**. IFC does not disclose information if such disclosure would violate applicable law (such as restrictions imposed by securities or banking laws) or would contravene its Articles of Agreement.

(l) **Investigative Information**. IFC may decline to disclose information if such disclosure might prejudice an investigation or any legal or regulatory proceedings, or subject IFC to an undue risk of litigation.

[12] However, if no subsequent Board meeting is expected, the relevant Committee may decide to disclose its Report to the Board, with deliberative and confidential information removed (summary portion of the Green Sheet).

[13] This is a heterogeneous group of documents that includes information notes, technical briefing papers, legal opinions, PowerPoint presentations that supplement Board papers, presentations to Board Committees, and administrative papers (such as meeting notices) .

[14] IFC may disclose some assessments or parts of them, such as the Environmental and Social Impact Assessment referred to in paragraph 31 (a), when the underlying information is not confidential or of a sensitive nature or some procedures such as the Environmental and Social Review Procedures referred to in paragraph 20(d).

12. **Prerogative to Disclose Information in the Public Interest**. In exceptional circumstances, IFC reserves the right to disclose information that it would ordinarily not release to third parties. IFC may exercise this right if, in connection with an IFC investment or advisory services project, IFC's senior management determines that the disclosure of certain non-public information would be likely to avert imminent and serious harm to public health, safety or security, and/or imminent and significant adverse impacts on the environment.

13. Any such disclosure by IFC would be on the most restricted basis necessary to achieve the purpose of the disclosure, such as notice to the appropriate regulatory authorities. If the non-public information has been provided by or relates to an IFC client, IFC would make such disclosure only after informing the client of IFC's concerns and considering the client's plans to address and mitigate the potential harm involved.

14. **Delayed Disclosure**. IFC may delay the disclosure of certain information that it would otherwise make publicly available because of market conditions, legal or other regulatory requirements such as timing requirements relating to securities offerings, equity investments in publicly listed companies, purchases of shares in a private placement or a financial restructuring. This prerogative may be exercised by the director responsible for the project, with respect to such information.

D. Historical Information

15. The same general principles that apply to proposed and existing investments and advisory services apply to information held by IFC about investments and advisory services that have been concluded.

III. Information Routinely Made Available by IFC

16. The information described below is not an exclusive list of documents that may be disclosed under this Policy. Rather, it lists certain information about IFC and its activities, which, in IFC's experience, are frequently the subject of public interest.

E. Institutional Information

17. **Corporate Governance Information**. IFC makes publicly available information regarding its governance. This information includes:

(a) the Articles of Agreement and By-Laws of IFC; and

(b) IFC's Annual Report, which lists its member countries and the Governors representing them. It also includes IFC's Executive Directors, the countries appointing or electing them, and their respective voting power.

18. **Board proceedings**. IFC makes publicly available the following Board records at the end of the relevant deliberative process:

(a) Minutes of formal meetings of IFC's Board of Directors (other than Executive Sessions);

(b) Minutes of Board Committee meetings;

(c) Summings-up of Board meetings and Committee of the Whole meetings;

(d) Annual Reports of Board Committees; and

(e) Reports to the Board from its Committees (Green Sheets), with deliberative or confidential information removed (summary portion of the Green Sheets), if a subsequent Board discussion is not expected.

19. Board records related to joint proceedings with other World Bank Group institutions may be disclosed in accordance with the declassification provisions of the relevant institution's access to information policy, subject to approval by IFC's Board of Directors.

20. **IFC Strategies, Budget and Policies**. IFC makes publicly available information regarding its strategies, policies, and budget. This information may include:

(a) IFCs overall strategic directions paper, which describes IFC's strategic priorities and/or provides an update on their implementation. This document is subject to redaction of any sensitive or confidential information;

(b) Special initiatives or strategies related to specific sectors and/or regions. Such documents are subject to redaction of any sensitive or confidential information;

(c) Country Assistance Strategies prepared jointly with the World Bank[15] are disclosed in accordance with the World Bank's Access to Information Policy. See the World Bank's website for more information;

(d) This Policy, the Policy and Performance Standards on Environmental and Social Sustainability, and the Environmental and Social Review Procedures; and

(e) IFC's Budget and Business Plan. This includes IFC's administrative budget and is based on the strategic directions paper. It is publicly available subject to the redaction of any confidential or sensitive information.

21. If a policy to be approved by IFC's Board of Directors is likely to have a broad impact on IFC's operations or a direct impact on communities affected by IFC's investments and operations, the Board may approve a process for external consultations on such policy. The external consultation process would take place before the policy is approved by the Board, and may include the disclosure to the public of one or more drafts of such policy.

22. **Financial Information**. As an organization conducting business on the world's financial markets, IFC maintains sound financial management practices, including prudent policies for the disclosure of financial information about IFC. Documents related to public offerings by IFC are released when the laws or regulations governing the market require that they be filed with a governmental agency. Set forth below is a description of the financial information that IFC discloses publicly on a routine basis:

(a) Annual audited financial statements as of IFC's fiscal year-end appear in IFC's Annual Report and in IFC's annual Information Statement. The annual audited financial statements include balance sheets as of the end of the current and previous fiscal years, as well as statements of income, comprehensive income, cash flows, changes in capital stock (as of the end of the current and previous fiscal years), and capital stock and voting power (as of the end of the current fiscal year). Notes to the financial statements include information on all significant accounting policies and other disclosures that are required

[15] The "World Bank" refers to IBRD and IDA, collectively.

for financial statements prepared in conformity with the accounting principles specified in the Annual Report;

(b) A Management's Discussion and Analysis is included in IFC's Annual Report and summarized in IFC's annual Information Statement;

(c) IFC's Annual Report and annual Information Statement; and

(d) Quarterly financial statements. At the end of interim quarters during a fiscal year (September, December, and March), IFC produces interim unaudited financial statements, which are reviewed by IFC's external auditors.

23. **Donor Contributions**. General information regarding IFC's partnership with donor governments, foundations and other entities, as well as information on donor contributions to advisory services, is disclosed in IFC's annual Budget and Business Plan and annual donor reports.

24. **Good Practice Reporting**. IFC provides investments and advisory services to private entities and governments in support of private sector development. These services may be partially funded by donor governments and other partners. As part of its investment and advisory services activities, IFC publishes a number of good practices or lessons learned reports which aim to enhance the development impact of these initiatives.

25. **Development Outcomes Information**. IFC reports on the development outcomes of its portfolio at least annually. This reporting includes information regarding the development outcomes of IFC's investments and advisory services activities. For investments made with and through financial intermediaries (FIs), IFC reports annually on the development outcomes of its FI portfolio.[16] IFC also reports on its own performance related to meeting its development goals.[17]

26. **Carbon Footprint**. IFC reports annually on the greenhouse gas (GHG) emissions of its internal operations. In accordance with the Policy on Environmental and Social Sustainability, IFC will quantify and report on the carbon footprint of its portfolio in accordance with the emerging state of practice on GHG accounting and reporting.

27. **General Staff Information**. The Staff Manual for IFC and the World Bank includes the Principles of Staff Employment and the Staff Rules for these organizations. The Principles and Staff Rules describe the terms and conditions of World Bank and IFC employment, including policies on, among other things, compensation and conflict resolution. Information about these and certain other World Bank Group staff matters are available from the World Bank, subject to the World Bank's Access to Information Policy. Information about IFC's organization and management is included in IFC's Annual Report.

F. INVESTMENT-RELATED INFORMATION

28. **IFC's Investment Cycle**. General information describing how IFC processes an investment (e.g., loan, equity, quasi-equity, or guarantee) may be found on IFC's website at www.ifc.org.

[16] IFC will also periodically disclose a listing of the names, locations and sectors of high risk sub-projects that have been supported by IFC investments through private equity funds, subject to regulatory constraints and market sensitivities.

[17] IFC will begin this reporting once its development goals are fully operational and implemented in IFC's systems.

PRE-APPROVAL DISCLOSURE

29. For each proposed investment, IFC makes publicly available certain information, including relevant project, environmental and social, and development impact information. Except as noted in paragraph 14, IFC makes this information available while the investment is still under consideration by IFC and provides periodic updates on the investment.

30. **Summary of Investment Information (SII)**. For each proposed investment , IFC will disclose an SII, which provides a factual summary of the main elements of the potential investment, and will include the following information:

(a) the identity of the project or investee company;

(b) information about the shareholders of the project or investee company;

(c) the total project cost, where applicable;

(d) the location of the project or investee company;

(e) a brief description of the project or investment;

(f) the amount and nature of IFC's investment;

(g) the projected date for a decision on the investment by IFC's Board of Directors (or other relevant internal authority);

(h) the expected development impact of the project or investment;

(i) IFC's expected role and additionality;

(j) IFC's categorization[18] of the project or investment for environmental and social purposes and, for Category C or FI-3 projects, a brief statement of the rationale for such categorization; and

(k) contact details for IFC's Corporate Relations Department (which will liaise, as necessary, with the relevant IFC department).

For Direct Investments[19] where there are Affected Communities,[20] the SII will also include:

(l) guidance on how and where information about the proposed project can be obtained locally; and

(m) contact information as to where inquiries and comments about the project should be addressed i.e., for project-related information, details of the contact person at the project company, including address, telephone number, fax and e-mail address.

31. **Environmental and Social Information**. In accordance with the Performance Standards, IFC requires its clients to engage with Affected Communities, including through the disclosure of

[18] As part of IFC's review of a project's expected environmental and social risks and impacts, IFC assigns an environmental and social category (A, B, or C, or FI-1, FI-2, or FI-3) that is intended to reflect (i) the magnitude of risks and/or impacts posed by the project and (ii) IFC's institutional requirements for environmental and social disclosure as specified in this Policy. Details of IFC's review and categorization process can be found in IFC's Policy on Environmental and Social Sustainability and the Environmental and Social Review Procedures, which is posted on IFC's website.

[19] See the Policy on Environmental and Social Sustainability.

[20] Ibid.

information, in a manner commensurate with the risks and impacts their projects pose to such stakeholders. IFC makes publicly available the following environmental and social information:

(a) **Direct Investments**. For each proposed Category A and B project, IFC discloses a summary of its review findings and recommendations, the Environmental and Social Review Summary (ESRS). The ESRS includes:

(i) reference to the Performance Standards and any applicable grievance mechanisms, including the CAO;

(ii) the rationale for IFC's categorization of a project;

(iii) a description of the main environmental and social risks and impacts of the project;

(iv) key measures identified to mitigate those risks and impacts, specifying any supplemental actions that will need to be implemented to undertake the project in a manner consistent with the Performance Standards, or where required by IFC, the Environmental and Social Action Plan (ESAP);[21]

(v) where greater than 25,000 MT CO2 equivalent, the expected GHG emissions of the project;

(vi) electronic copies or web links, where available, to any relevant Environmental and Social Impact Assessment (ESIA) documents prepared by or on behalf of the client; and

(vii) for those projects where the verification of the Free, Prior, and Informed Consent[22] (FPIC) of indigenous peoples is required, a description of the status of that consent process.

(b) **Financial Intermediary Investments**. For Category FI-1 and FI-2 investments, IFC discloses the following through the SII:

(i) the rationale for IFC's categorization of the investment;

(ii) a description of the main environmental and social risks and impacts associated with IFC's investment and a summary of the Environmental and Social Management System (ESMS); and

(iii) key measures identified to strengthen the ESMS, as specified in the ESAP.

32. **Broad Community Support (BCS)**. Where applicable, IFC will disclose a summary of the process outlining how it made a determination of BCS[23] prior to consideration of the investment by IFC's Board of Directors. IFC will update the ESRS to include this information once it becomes available. For projects where BCS cannot be determined prior to consideration by IFC's Board of Directors, for example, because a project site is not yet defined or is in a pre-development phase, IFC will update the ESRS with this summary as it becomes available.

[21] More details about the ESAP may be found in the Policy on Environmental and Social Sustainability.

[22] See the Policy on Environmental and Social Sustainability.

[23] More information on BCS is available in the Policy on Environmental and Social Sustainability.

33. **Timing**. An SII is made publicly available once the relevant IFC department has determined that:

(a) there is reasonable certainty that an investment will be forwarded to IFC's Board of Directors (or other relevant internal authority) for consideration;

(b) IFC has assured itself that the client can be expected to undertake the project in a manner consistent with the Performance Standards; and

(c) that the client has undertaken its disclosure obligations and, where applicable, conducted an effective consultation process consistent with the Performance Standards.

34. IFC makes the SII and the ESRS publicly available no later than sixty days, in the case of Category A projects, and thirty days, in the case of all other projects, prior to consideration of the investment for approval by IFC's Board of Directors (or other relevant internal authority).

35. There may be some limited circumstances that may prevent the observance of these time periods (see paragraph 14). In such cases, the Board of Directors would be informed of any such delay in the release of the SII and the relevant environmental and social information.

36. **Early Disclosure**. For projects or investments with potential significant adverse environmental or social risks and/or impacts, disclosure of the ESIA should occur early in the environmental and social assessment process. For these projects, IFC will also endeavor to provide access to the draft ESIA prepared by the client even before IFC has completed, or in some cases even started, the review of its investment.

37. **Client Review**. Before IFC releases the project or environmental and social information (including, if applicable, the draft ESIA), the IFC client reviews the contents to verify the factual accuracy of information relating to the client and the project.

38. Before the date upon which IFC's Board of Directors is to consider the investment, IFC, in consultation with the client, updates the SII as necessary to reflect any significant changes to the project or to IFC's investment since the SII's initial posting on IFC's website. Any such revised or additional information will be made publicly available.

39. Such updates do not restart the time periods referred to in paragraph 34 above, unless IFC determines that the changes are material to the environmental or social risks and/or impacts of the project.

POST-BOARD DISCLOSURE

40. **Project Information**. Throughout the life of each investment, IFC will update the SII, as necessary, to ensure the continued accuracy of the information disclosed pursuant to paragraph 30 (e) and (f) above.

41. **Environmental and Social Information**. For each investment, other than those expected to have minimal or no environmental or social adverse risks and/or impacts, IFC updates the ESRS or SII with the following environmental and social information, as it becomes available:

(a) Any ESAP required by IFC that has been produced after approval of the investment by IFC's Board of Directors (or other relevant internal authority); and

(b) The status of implementation of the ESAP, where required by IFC.

For Category A and B investments, IFC will also make available, if applicable:

(c) Any ESIA reviewed by IFC, as they become available; and

(d) Third-party monitoring reports, where required by IFC, in accordance with the Performance Standards.

42. **Development Results Information**. For each investment, other than those expected to have minimal or no environmental or social adverse risks and/or impacts, IFC discloses results for the standard indicators tracked in its Development Outcome Tracking System (DOTS),[24] as agreed with the client, other than those indicators containing confidential information. This information will be updated in the SII, as the results become available.

G. ADVISORY SERVICES-RELATED INFORMATION

43. **Launch or renewal of global or regional Advisory Services platforms**. No later than thirty days after IFC's Board of Directors approval of the establishment or renewal of an advisory services platform, IFC issues a summary of the main elements of the platform, including the following information:

(a) the expected IFC and donor contribution;

(b) a brief description of the platform, including any regional, country, sectoral, or thematic focus; and

(c) the expected development contribution.

44. **Summary of Advisory Services Project Information (ASPI)**. For advisory services projects with external clients, IFC provides a factual summary of the main elements of the project within sixty days of approval, which will include the following:

(a) the expected total project funds managed by IFC;

(b) a brief description of the project, including any regional, country, sectoral, or business line focus;

(c) the expected development impact of the project; and

(d) if applicable, any measures identified to mitigate any environmental and social risks and/or impacts associated with implementation of the project.

45. **Environmental and Social Information**. Where applicable, IFC provides an update of measures taken to mitigate the environmental and social risks and /or impacts identified in the ASPI.

46. **Development Results Information**. For each advisory services project with external clients, IFC discloses the results for standard development indicators tracked, other than those indicators containing confidential information. This information will be updated in the ASPI, as the results become available.

[24] For more information see www.ifc.org/dots. IFC will phase in this requirement by region over a two-year period from the effective date of this Policy.

H. Related Third Parties

47. **IFC's Asset Management Company LLC (AMC)**. The AMC is a wholly-owned subsidiary of IFC. It invests third-party capital, enabling outside investors to benefit from IFC's investment expertise as well as promoting positive development impact in the countries in which it invests.

48. Investments by AMC-managed funds are made in accordance with this Policy, as well as IFC's Policy and Performance Standards on Environmental and Social Sustainability. Accordingly, the disclosure requirements of the Policy on Environmental and Social Sustainability and this Policy will extend to all investments made by the AMC and appropriate disclosures will be made either through IFC's website or through AMC's own website.

IV. Implementation Aspects of the Policy

I. Accessing Information

49. **Where to Access Information**. General information about IFC and its activities may be obtained online at IFC's website, www.ifc.org. Project or investment Information regarding IFC's investments and advisory services is disclosed through IFC's Disclosure Portal at www.ifc.org/disclosure.

50. As IFC is part of the World Bank Group, information about IFC may also be obtained through the World Bank InfoShop. The InfoShop is located at 701 18th Street, N.W., Washington D.C., 20433 USA. and may be accessed online at http://worldbank.org/infoshop.

51. This information is also available through public area computers available at the Public Information Centers (PICs), which are situated around the world in World Bank member countries. A list of the PICs is available on the InfoShop website.

52. **Submitting a Request for Information**. Information that is not readily available from IFC's website, the InfoShop, or the PICs may also be requested from IFC's Corporate Relations Department as follows:

(a) through IFC's Disclosure Portal, at www.ifc.org/disclosure;

(b) by telephone at +1 (202) 473-3800;

(c) by fax at +1 (202) 974-4384; or

(d) by mail at 2121 Pennsylvania Avenue, N.W., Washington, D.C., 20433, USA.

53. Requests for information must identify the specific information requested; blanket or frivolous requests for information will not be accepted. Requests for information may use forms available through IFC's Disclosure Portal. There may be a standard charge for hard-copy documents or for documents on electronic discs or drives, other than information in an SII, ASPI, or an ESRS.

54. **Responding to Requests**. In responding to requests for information, the relevant Department determines whether information requested may be made available in accordance with this Policy and responds to such request (or if appropriate may refer the requester to IFC's client).

55. As necessary, staff from the Corporate Relations Department provides guidance to other departments on the interpretation of the Policy in responding to requests for information.

56. English is the working language of IFC, and IFC will respond to requests for information in English. However, to the extent that IFC receives requests in other languages, IFC will endeavor to be responsive in the relevant language.

57. IFC endeavors to respond to requests within thirty calendar days of receipt of a written request for information, unless additional time is required because of the scope or complexity of the information requested. If additional time is necessary, IFC will contact the requester and explain the reasons for the delay and, if possible, will provide an estimated time frame for its response.

58. In its response to a request, IFC will either provide all or part of the requested information or give reasons why the request has been delayed or denied, in whole or in part. If IFC receives numerous requests for the same information, IFC may make its response available on its website rather than responding to each individual request.

APPEALS PROCESS

J. ACCESS TO INFORMATION POLICY ADVISOR

59. **Appealing the Initial Denial**. If a requester believes that a request for information from IFC has been unreasonably denied, or that this Policy has been interpreted incorrectly, a complaint may be submitted to IFC's Access to Information Policy Advisor (AIP Advisor), who reports directly to IFC's Executive Vice President.

60. **Submitting an Appeal**. Appeals must be submitted to IFC's Corporate Relations Department as provided in paragraph 52 (a), (c) or (d).

61. The AIP Advisor will review the appeal and endeavor to respond to the requester within thirty calendar days of receipt of the complaint, unless additional time is required because of the scope or complexity of the complaint.

62. **Scope of Review**. The AIP Advisor's review will focus on whether the requested information falls within the scope of paragraph 8 of this Policy and, if so, whether IFC has a reasonable basis for determining that there is a compelling reason not to disclose such information pursuant to paragraph 10). In conducting his/her review, the AIP Advisor may, if he/she deems it necessary or appropriate, consult with third parties including IFC's client.

63. The AIP Advisor's authority does not extend to paragraph 12, the application of which is solely within IFC senior management's discretion.

64. **Notification of Decision**. The AIP Advisor will advise the requester and the relevant IFC Departments, including the Corporate Relations Department of his/her conclusions in writing and will explain the reasons for such conclusions.

K. Access to Information Appeals Panel

65. **Appealing the AIP Advisor's Denial**. A requester, who receives a negative decision from the AIP Advisor may appeal to the independent Access to Information Appeals Panel[25] (AIP Panel) within thirty calendar days of the notification of the AIP Advisor's decision.

66. **Submitting an Appeal**. Appeals must be submitted by contacting IFC's Corporate Relations Department through the website at www.ifc.org/contacts or by the e-mail addresses provided therein for AIP Panel, or as provided in paragraph 52 (c) or (d).

67. **Scope of Review**. The scope of review by the AIP Panel will be limited to whether the AIP Advisor had a reasonable basis for his or her determination.

68. The AIP Panel will either uphold or reverse the AIP Advisor's decision. The AIP Panel's decision will be final.

69. **Notification of Decision**. The AIP Panel will endeavor to respond to the requester within sixty days of receipt of the appeal, unless additional time is required because of the scope or complexity of the appeal.

V. Monitoring and Reporting

70. **Periodic Reporting**. IFC's Corporate Relations Department will, on an ongoing basis, monitor and report to IFC senior management on the implementation of this Policy, including the types of information being requested or accessed by the public and the general responsiveness of IFC staff to requests for information.

[25] The Access to Information Appeals Panel comprises three outside experts on access to information in a commercial setting. The Access to Information Appeals Panel members are nominated by IFC's Executive Vice President and endorsed by IFC's Board of Directors.

ANNEX D

Summary Implementation Action Plan

International Finance Corporation

April 14, 2011

ANNEX D. SUMMARY IMPLEMENTATION ACTION PLAN

The proposed actions below are indicative and represent key areas of IFC engagement. This is subject to modifications with implementation experience, and to reflect portfolio requirements.

1. **Strengthening IFC Internal Capacity.** ***Monitoring Indicators:*** *Number of staff trained, with percent passing exit questions for on-line training; Internal staff survey ratings for responsiveness of CES support to investment processing.*

ISSUES	ACTIONS	IFC INTERNAL RESPONSIBILITIES (LEAD IN BOLD)
• Changes to Policy and Performance Standards (PS) on Environmental and Social Sustainability (PPSs) in specific areas require modification or development of new implementation tools.	**Update/develop implementation tools:** • Revise all current Guidance Notes (GNs) • Develop a new GN on Financial Intermediaries (FIs); an interpretation note on categorization; and a commodity screening tool for Agribusiness	**Environment, Social and Governance Dept. (CES)**
• Changes to PPSs in specific areas require general and targeted training for CES staff • Turnover of IFC staff requires ongoing training program, and other opportunities to share learning on PS implementation and revised Sustainability Framework	**Update a core curriculum for learning related to the Sustainability Framework and deliver training programs and induction programs reflecting the updated Sustainability Framework to staff:** • Modify overall training programs to reflect revisions to the Sustainability Framework • Undertake training for Environmental and Social (E&S) Specialists on Free, Prior, and Informed Consent (FPIC), human rights due diligence, ecosystem services, resource efficiency, and stakeholder engagement • Roll out targeted training for Investment Officers (IOs), Advisory Services (AS) and legal • Train AS staff on Sustainability Framework requirements and consistency with products	**CES, Corporate Relations Dept. (CCR)**, Investment Depts. (IDs)
• The current quality control and assurance procedures need to be fully aligned with the updated Sustainability Framework	**Implement system modifications, from a systems and quality assurance perspective:** • Align quality control and assurance systems and procedures (e.g., ESRD, ESRP, ESRR, etc.) with the revised PPS including (i) revising clients' Annual Monitoring Report (AMR) templates, (ii) redesigning structure of the Environmental and Social Action Plan template to support post-commitment disclosure	**CES**
• Changes to Access to Information Policy (AIP) require update or development of new implementation tools	**Develop and implement training and systems update related to the Access to Information Policy:** • Upgrade of information system • Revise AMR templates to reflect new requirements of AIP • Revise Summary of Investment Information and Environmental and Social Review Summary templates • Develop guidance for staff on how to work with clients on new AIP reporting requirements • Train staff on AIP requirements	**CCR**, CES, Business Technologies Dept., IDs

2. **Client Support.** ***Monitoring indicators:*** *Measured by progress over time in ESRR scores for new investments and the portfolio and related Environmental and Social indicators (extended project supervision report ratings improvements) from the Development Outcome Tracking System—for advisory services monitoring will be identified at the project level.*

ISSUES	ACTIONS	IFC INTERNAL RESPONSIBILITIES (LEAD IN BOLD)
• Changes to thematic PPS will require incremental modifications to client guidelines and support materials	**Adjust ongoing programs, with a special focus on FIs:** • Launch a client support portal for FIs • Update and adjust existing AS programs in support of clients' implementation of PSs • Develop targeted programs related to the financial sector	**CES**, AS
• Not all clients have the skills and support structure to implement the PSs • Clients face different challenges and approaches that have to be adapted to sectoral needs as well as local conditions	**Adjust ongoing programs, with a focus on different contexts clients face and tools needed:** • Take stock and make available a mix of products for clients to help strengthen their ability to implement the Performance Standards (both direct and indirect support) • Investigate development and possible rollout of Training of Trainers in key select areas for local consulting firms to support clients on a decentralized model rolled out in regions • Develop a resource list of relevant global and local E&S service providers searchable by region, country, and type of operations/experience. • Research and investigate possible opportunities to "level the playing field" around standards in particular target countries, such as via regulatory reform or innovative incentives.	**CES**, AS, Regions
• Changes to PSs and AIP in specific areas require additional processing capacity	**Increase processing capacity:** • Hire two energy efficiency specialists • Hire six Environmental and Social Specialists in CES to work on FIs (four) and quality coordination and partnerships (two) • Hire nine portfolio officers in Financial Markets • Hire six in other industry clusters • Hire two communications specialists in CCR	

3. Strategic Partnerships.

CURRENT SITUATION	ACTIONS	IFC INTERNAL RESPONSIBILITIES (LEAD IN BOLD)
• There are a number of different E&S frameworks and approaches when dealing with clients and non- clients • Opportunities for mutual learning across several industries • In addition to the PSs, IFC influences broader development outcomes via its strategies (such as the World Bank Group (WBG) Energy Strategy; the Environment Strategy, etc.)	**Support communities of practice around priority themes on an ongoing basis, and continue IFC involvement in key groups** • Map IFC PSs against key E&S commodity standards and also selected international financial institutions' (IFIs) standards—to better understand alignment and areas of difference (gap analysis) • Examine opportunities and pursue priority partnerships where IFC can strengthen or establish operational level partnerships which directly support its client capacity objectives • Engage with other IFI's and selected market standard setters with a view to identify opportunities for harmonization • Continue technical advisory role with Equator Principles Financial Institutions, European Development Finance Institutions and Export Credit Agencies • Continue annual PS community of learning events	**CES,** AS
• Findings from the Independent Evaluation Group indicated a need for greater alignment within the WBG on environmental and social policies	**Continue to work towards greater synergy within the World Bank group on relevant strategies, policies and standards related to sustainability, including contribution towards the World Bank's review and update of Safeguards Policies**	**CES**, Industry, Regions, AS
• In certain contexts lack of sound E&S frameworks	**Focus on sectors and country context of significant to IFC's development impact where ES issues are particularly complex, and develop a strategic approach—building on previous success—to identify selected priority countries/ markets for deeper in country engagement and local standards infrastructure development.** • Capture learning from the country and sector risk screening tool for commodities	**CES**, Industry, Regions, AS

ANNEX E

Summary Cost Table

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ANNEX E. SUMMARY COST TABLE
(IN U.S. DOLLARS)

One Time Cost	FY12	FY 13
Financial Markets Dept. (FM)	400,000	0
Infrastructure and Natural Resources Dept. (INFRA)	250,000	150,000
Manufacturing, Agribusiness and Services Dept. (MAS)	200,000	0
Business Technologies Dept.	500,000	0
Corporate Relations Dept.	290,000	250,000
Environment, Social and Governance Dept. (CES)	1,130,000	970,000
Total	**2,770,000**	**1,370,000**

	Range (recurrent cost)	2012	2013	2014	2015
Acess to Information Policy (AIP)	**Lower end**	**1,195,000**	**2,100,000**	**2,870,000**	**3,460,000**
	CES	75,000	200,000	250,000	300,000
	MAS	285,000	510,000	825,000	980,000
	INFRA	485,000	865,000	1,135,000	1,380,000
	FM	350,000	525,000	660,000	800,000
	Higher end	**1,930,000**	**3,255,000**	**4,710,000**	**5,890,000**
	CES	75,000	200,000	250,000	300,000
	MAS	600,000	1,180,000	1,790,000	2,460,000
	INFRA	680,000	1,125,000	1,570,000	2,030,000
	FM	575,000	750,000	1,100,000	1,100,000
Sustainability Policy (SP) and Performance Standards (PSs)	**Lower end**	**1,542,500**	**2,155,000**	**2,330,000**	**2,330,000**
	CES	762,500	1,200,000	1,200,000	1,200,000
	MAS	295,000	295,000	295,000	295,000
	INFRA	310,000	310,000	310,000	310,000
	FM	175,000	350,000	525,000	525,000
	Higher end	**1,732,500**	**2,810,000**	**3,420,000**	**3,895,000**
	CES	762,500	1,200,000	1,200,000	1,200,000
	MAS	370,000	610,000	865,000	1,150,000
	INFRA	425,000	650,000	830,000	1,020,000
	FM	175,000	350,000	525,000	525,000
Total	**Lower end (AIP + SP + PSs)**	**2,737,500**	**4,255,000**	**5,200,000**	**5,790,000**
	CES	837,500	1,400,000	1,450,000	1,500,000
	MAS	580,000	805,000	1,120,000	1,275,000
	INFRA	795,000	1,175,000	1,445,000	1,690,000
	FM	525,000	875,000	1,185,000	1,325,000
Total	**Higher end (AIP + SP + PSs)**	**3,662,500**	**6,065,000**	**8,130,000**	**9,785,000**
	CES	837,500	1,400,000	1,450,000	1,500,000
	MAS	970,000	1,790,000	2,655,000	3,610,000
	INFRA	1,105,000	1,775,000	2,400,000	3,050,000
	FM	750,000	1,100,000	1,625,000	1,625,000

ANNEX F

Chronology of IFC's Sustainability Framework Review and Update Process

International Finance Corporation

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ANNEX F. CHRONOLOGY OF IFC'S SUSTAINABILITY FRAMEWORK REVIEW AND UPDATE PROCESS

- **FEBRUARY 21, 2006**
  IFC's Board of Directors approves the new Sustainability Framework, consisting of the Policy on Social and Environmental Sustainability, Performance Standards on Social and Environmental Sustainability, and Policy on Disclosure of Information.

- **APRIL 30, 2006**
  The New Sustainability Framework takes effect.

- **DECEMBER 13, 2007**
  The Board of Directors reviews the 18-month progress report on the application of the new Sustainability Framework.

- **AUGUST, 2008**
  IFC proposes to the Board of Directors a plan to review and update the Sustainability Framework.

- **JULY 29, 2009**
  IFC issues a report summarizing three years of implementation experience with the new Sustainability Framework, and presents these findings to CODE. CODE authorizes IFC to begin the review and update process.

- **SEPTEMBER 14–NOVEMBER 13, 2009**
  IFC undertakes Phase I of external consultations, a key component of the review and update process.

- **MAY 5, 2010**
  CODE approves the first draft of the revised Sustainability Framework for external consultations.

- **JUNE 1 –AUGUST 31, 2010**
  IFC undertakes Phase II of external consultations.

- **DECEMBER 15, 2010**
  CODE approves the second draft of the revised Sustainability Framework for external consultations.

- **JANUARY 1–MARCH 3, 2011**
  IFC undertakes Phase III of external consultations.

- **MAY 12, 2011**
  The Board of Directors reviews the final version of the updated Sustainability Framework.

- **OCTOBER 1, 2011**

  The Policy on Social and Environmental Sustainability and the Performance Standards on Social and Environmental Sustainability take effect.

- **JANUARY 1, 2012**

  The Access to Information Policy takes effect.

External Consultations During Phases II and III

Date	Location	Type of consultation
June 3, 2010	Bogota, Colombia	Multi-stakeholder
June 15, 2010	Dakar, Senegal	Multi-stakeholder
June 18, 2010	Accra, Ghana	Multi-stakeholder
June 22, 2010	Istanbul, Turkey	Multi-stakeholder
June 25, 2010	New Delhi, India	Multi-stakeholder
June 15, 2010	Washington, D.C.	Open House
July 9, 2010	Manila, Philippines	Open House
July 9, 2010	Moscow, Russia	Open House
July 12, 2010	Brussels, Belgium	Open House
July 22, 2010	São Paulo, Brazil	Open House
July 26, 2010	Washington, D.C.	Financial Intermediaries
July 27, 2010	Washington, D.C.	Biodiversity
July 29, 2010	Washington, D.C.	Indigenous Peoples
August 16, 2010	Washington, D.C. and London	Business and Human Rights
January 14, 2011	Mumbai, India	Open House
January 21, 2011	Tokyo, Japan	Open House
January 25, 2011	Lima, Peru	Open House
February 1, 2011	Washington, D.C.	Business and Human Rights
February 15, 2011	Johannesburg, South Africa	Open House
February 23, 2011	Paris, France	Open House
March 3, 2011	Washington, DC	Open House

ANNEX G

Implementation Guidance

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ANNEX G. IMPLEMENTATION GUIDANCE

In order to facilitate implementation, additions to existing Guidance Notes or new Guidance/Interpretation Notes will be prepared on:

- **Application of the Performance Standards by Financial Intermediaries:** will include guidance on Financial Intermediary categorization and how Environmental and Social Management Systems should be developed.
- **Free, Prior, and Informed Consent:** will clarify how this process, which does not constitute a veto, can be implemented by businesses.
- **Application of the Performance Standards by Small and Medium Enterprises:** will explain how IFC Performance Standards are applied flexibly, over a reasonable period of time, taking into account a company's capacity and resources.
- **Supply Chain Management:** will help the processes of risk identification, especially with primary suppliers, and how to work with those suppliers to uncover and manage risks.

In developing the guidance, IFC will reach out to authorities and other concerned stakeholders to seek their input.

In addition, IFC will monitor implementation of the Standards to ensure that their application does not adversely affect IFC business, particularly by excluding smaller companies that are central to achieving its strategic objectives.