

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

International Finance Corporation

April 14, 2011

**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 CO₂-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.*