

**CONSULTATION DRAFT**

**Concept Paper on  
Review of IFC's Policy on  
Disclosure of Information**

**August 12, 2004**

## TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS .....	i
I. BACKGROUND.....	1
II. OBJECTIVES FOR THE DISCLOSURE POLICY REVIEW .....	2
III. THE REVIEW PROCESS.....	2
IV. CORE ELEMENTS OF THE CURRENT POLICY .....	4
V. PRINCIPLES .....	5
VI. ROLES AND RESPONSIBILITIES OF THE CLIENT .....	6
Government Contracts .....	8
VII. ROLES AND RESPONSIBILITIES OF IFC.....	8
Strategies and Policies.....	9
Board Minutes.....	10
VIII. CONCLUSION.....	10

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CAO	Compliance Advisor Ombudsman
CODE	Committee on Development Effectiveness
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
ERS	Environmental Review Summary
FI	Financial Intermediary
GRI	Global Reporting Initiative
IDB	Inter-American Development Bank
OECD	Organization for Economic Co-operation and Development
OEG	IFC's Operations Evaluation Group
SEA	Social and Environmental Assessment
SPI	Summary of Project Information
WBI	World Bank Institute
XPSR	Expanded Project Supervision Report

## I. BACKGROUND

1. In evaluating the business environment in which it operates, IFC recognizes the importance of transparency as a fundamental component of a sustainable business model. In the projects in which IFC invests, disclosure ensures that affected stakeholders have sufficient knowledge about projects and can contribute meaningfully to the consultation process. Active and systematic community engagement has been found to improve project designs, balance divergent interests, and build consensus, thus contributing to successful, sustainable investments.

2. In the past, IFC has taken the lead in developing environmental and social policies and disclosing how these applied to its projects. This approach built trust and confidence as evidenced by the development of the Equator Principles last year and their subsequent adoption by 24 financial institutions. IFC's approach to disclosure now needs to move beyond its focus primarily on environmental and social issues to one that reflects its development mandate more holistically. For IFC, disclosure and stakeholder engagement improves accountability and builds trust, therefore providing IFC the space to innovate. Today, accountability means a willingness to be scrutinized about development choices and to measure and report on these results.

3. The April 2003 *Review of IFC's Safeguard Policies* by the Compliance Advisor Ombudsman (CAO), while not reviewing the 1998 Policy on Disclosure of Information directly, concluded that disclosure, communication and community engagement are critical for the effectiveness and impact of the Safeguard Policies and project outcomes. In June 2003, the *Extractive Industries Evaluation*,<sup>1</sup> and in January 2004, the *Extractive Industries Review*,<sup>2</sup> included recommendations related to transparency and disclosure issues, particularly as they concern government contracts and ongoing consultation by IFC's clients with affected communities.

4. In line with IFC's commitment to the mainstreaming of environmental and social issues and to ensure that the Safeguard Policy update would result in a comprehensive examination of all relevant issues, management concluded that it was timely to review the Policy on Disclosure of Information. Thus, in the *IFC Management Response to the CAO Safeguard Review* (January 2004), IFC committed to reviewing its disclosure policy, "recognizing that transparency promotes efficiency and accountability and enhances development impacts."

5. This Concept Paper attempts to define the framework for a new approach to disclosure issues. It establishes principles that clearly specify IFC's responsibilities and those of its clients. These principles establish the foundation for a new policy which should be sufficiently robust to allow IFC the necessary flexibility to accommodate changing procedures and changing needs. The paper also sets out the process that IFC will use to develop an updated disclosure policy and highlights issues for consideration. Development of the policy and its details will occur during and following the planned consultation process.

6. IFC is ready to move to the stage of formal multistakeholder consultation using this Concept Paper as the basis for such consultation. During the course of the consultation process, a revised disclosure policy will be developed. It is expected that management will return to the IFC Board Committee on

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<sup>1</sup> See *Extractive Industries and Sustainable Development: An Evaluation of World Bank Group Experience* (CODE 2003-0039).

<sup>2</sup> See *Striking a Better Balance – The World Bank Group and Extractive Industries, The Final Report of the Extractive Industries Review*(OM2004-0008).

Development Effectiveness (CODE) with a draft policy by end 2004. The draft policy will then be publicly disclosed for a comment period, and subsequently submitted for approval by IFC's Board of Directors in early 2005.

## II. OBJECTIVES FOR THE DISCLOSURE POLICY REVIEW

7. Management has set the following objectives for the review process:
  - Evaluate the appropriate level of disclosure for IFC as a publicly-owned institution working in the private sector and respecting the business confidentiality of its client companies;
  - Distinguish between IFC corporate disclosure and clients' project-level disclosure;
  - Reduce risk and improve development impact of IFC investments through consultation and its resulting dialogue;
  - Encourage transparency of IFC clients and in member countries;
  - Build trust, consistency and efficiency; and
  - Increase appreciation of IFC's development impact and business performance.
8. Management has agreed that success factors for a new approach to disclosure will be a policy that:
  - Promotes an appreciation of disclosure and transparency as a corporate value in IFC, and as a preferred business principle in the companies in which it invests;
  - Meets the need for timely and ongoing information of project-affected people, and facilitates their engagement;
  - Supports the governance role of IFC's shareholders, and preserves the independence and accountability of management and the Board in decision-making;
  - Efficiently builds on existing internal procedures;
  - Does not create significant additional costs to IFC and undue additional time requirements on IFC staff;
  - Respects proprietary information and is considerate of resource implications for clients;
  - Does not undermine IFC's position as an attractive partner; and
  - Positions IFC as a market leader that employs best practice.

## III. THE REVIEW PROCESS

9. The Disclosure Policy review process is intended to be transparent and participatory, facilitating opportunities for successive involvement from IFC's many stakeholder groups. There has been close coordination with other relevant corporate activities, particularly the Safeguard Policy update, the World Bank Group response to the Extractive Industries Review, and the 'Additional Issues' being considered in relation to the World Bank's disclosure policy. The review consists of five phases:

- **Phase I: January – February 2004**

A scoping assessment was conducted which benchmarked IFC's current disclosure policy against nine comparable organizations.<sup>3</sup> As part of the process over 60 IFC and World Bank managers and staff were interviewed. To facilitate stakeholder engagement, a public announcement of the review was released and interested stakeholders were referred to the review's website ([www.ifc.org/disclosurereview](http://www.ifc.org/disclosurereview)). A working group of IFC staff with representatives from a broad range of departments, including environmental and social specialists, was created to provide ongoing guidance.

- **Phase II: February – June 2004**

This fact-finding phase was designed to provide a fuller understanding of the context in which IFC was operating on disclosure and transparency issues. It used three mechanisms:

- 1) through the disclosure review website, stakeholders were given the opportunity to comment on IFC's existing disclosure policy and the proposed process for reviewing it;
- 2) a two-week e-discussion, hosted by the World Bank Institute (WBI) in collaboration with IFC, allowed stakeholders to participate in a global, moderated dialogue on disclosure of information in the private and public sector contexts; and
- 3) a client survey solicited views on IFC's existing disclosure requirements, as well as attitudes on transparency issues more generally. An external consulting firm was hired to conduct the survey and to ensure confidentiality of client responses. Some 81 IFC clients completed the survey.

- **Phase III: June- July 2004**

In developing the principles and framework for a revised disclosure policy, internal meetings were held with IFC management and staff to discuss dilemmas, explore solutions and receive feedback. Outside experts on transparency issues were brought in to facilitate discussion.

- **Phase IV: August – December 2004**

Following the discussion with CODE of this Concept Paper on July 26, 2004, IFC is now ready to move to the phase of formal multistakeholder consultations. In conjunction with the Safeguard Policy update, regional multistakeholder consultation workshops are planned in four locations: in Africa, Asia, Eastern Europe (covering Europe, the Middle East and Central Asia), and Latin America. The sessions will be designed to seek views of various stakeholders in each region, including IFC clients, industry groups, affected communities, governments, civil society organizations and academics. Other sessions will be planned to address additional issues, as needed. The proposed timing and agenda of the multistakeholder consultations is being developed and will be posted on IFC's disclosure policy review website ([www.ifc.org/disclosurereview](http://www.ifc.org/disclosurereview)).

- **Phase V: December 2004 – February 2005**

In the final phase, stakeholder feedback will be reviewed and taken into account in drafting a new comprehensive policy. There will be an opportunity for public comment on the draft policy before its final approval by IFC's Board of Directors. Once the final policy is approved, it will be publicly disclosed and implementation procedures will be developed.

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<sup>3</sup> These institutions included other multilateral development banks (Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB)), financial institutions (ABN AMRO, Export Development Corporation (Canada), Fannie Mae, ISIS Asset Management, Standard Chartered), and corporations (BP).

#### IV. CORE ELEMENTS OF THE CURRENT POLICY

10. IFC adopted its first Policy on Disclosure of Information in July 1994. The policy covered release of environmental information on upcoming IFC projects prior to consideration by the Board of Directors, and release of a Summary of Project Information (SPI)<sup>4</sup> prior to Board consideration of a project. It also established a presumption in favor of disclosure. The policy was revised in 1995 and 1998. These revisions broadened the amount of information that could be released, lengthened release periods, and enhanced local release of information. Constraints on disclosure were clarified. The presumption in favor of disclosure is limited by the need to avoid material harm to the business and competitive interests of IFC's clients, and to preserve the integrity of the deliberative process that allows for the candid exchange of ideas among IFC staff, management and the Board.

11. At the project level, current disclosures include the SPI, the Environmental Review Summary (ERS) for Category B projects<sup>5</sup> and the Environmental Impact Assessment (EIA) for Category A projects.<sup>6</sup> All disclosures are at the pre-investment stage.

- The SPI is prepared by IFC, cleared by the client to verify accuracy and ensure that there is no confidential information, and released by IFC to the InfoShop no later than thirty (30) days prior to the Board date or Board closing date for the project.
- The ERS is prepared by IFC upon completion of its review of the client's environmental analysis. It is cleared by the client for accuracy and to ensure that it contains no confidential information. IFC releases it to the InfoShop and the borrower releases it locally as early as possible but no later than thirty (30) days prior to the planned Board date or Board closing date.
- The EIA is prepared by the client, reviewed by IFC and posted by IFC at the InfoShop once it is fully satisfactory to IFC. IFC or the client releases the EIA locally in the host country. The EIA is released as early as possible but no later than sixty (60) days prior to the proposed Board date or Board closing date.

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<sup>4</sup> The SPI provides a brief factual summary of the main elements of the project including a description of the project and its purpose, the amount of IFC's proposed investment, the environmental category, a brief summary of any environmental and social issues and measures to mitigate environmental and social impacts.

<sup>5</sup> *Category B* projects are those where the potential human and environmental impacts are site specific, reversible and where mitigating measures can readily be designed. The procedure of categorization is under review as part of the Safeguard Policy update.

<sup>6</sup> *Category A* projects are currently defined as those likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented and may extend beyond the project site. The procedure of categorization is under review as part of the Safeguard Policy update.

## V. PRINCIPLES

12. In recent years, diminishing public trust has led to higher demands for transparency and disclosure for both private and public sector organizations (for a discussion of these issues see the box below). Recognizing the need to facilitate consistency and accountability, IFC proposes a more comprehensive approach to disclosure that is based on principles that can be used to guide management and staff over time through a range of issues and demands. A principles based approach will clearly define IFC's role and responsibilities related to disclosure, and those we expect of our business partners.

13. As a development institution, IFC must balance stakeholder expectations against the obligations of a financial institution operating in the private sector. It is also necessary to distinguish between IFC's responsibilities to disclose information as a development institution as distinct from the disclosure responsibilities of IFC's clients in promoting sound and sustainable businesses. IFC's core stakeholders as a development institution are those who have an interest in ensuring that IFC fulfills its development role, most notably the shareholders and taxpayers owning and supporting IFC operations. These stakeholders should be informed as to how effectively IFC is using the resources it has been given. In the case of IFC clients, the key stakeholders are those directly affected by IFC financed projects, and the host countries where these projects are located. For those affected by IFC financed projects, a disclosure policy must ensure access to timely, comprehensive and accessible information so that they may understand potential risks and benefits from a project, and may engage in the process of designing risk mitigation and/or enhancing benefits.

## A Changed Environment

The past few years have seen a major shift in stakeholder expectations relating to transparency, particularly regarding performance in the environmental, social and governance arenas. In publicly held institutions, shareholder activism has been a key driver in demanding accountability beyond financial performance and extending it to social, environmental and governance issues.

IFC's clients are aware of the need for increased disclosure as well. The globalization of information flows allows firms to transmit information instantly, and for information to be tracked and scrutinized. With increased access, labor, environmental and human rights groups have targeted individual companies for their labor or environmental practices. Corporate accounting scandals, pollution incidents, health problems and labor issues have all created reputation pressures on multinational corporations. Today, accountability has moved well beyond the board of directors and shareholders to a diverse set of stakeholders that are impacted- directly or indirectly- by a company's operations. As noted in the client survey, over 60 percent of respondents indicated that their organizations had increased their level of disclosure over the past three years. Two-thirds of respondents indicated that they expect an increase in their disclosure over the next three years.

The number of global transparency-related initiatives currently underway reflects the growing demand for increased scrutiny and accountability. For corporations, there are increased regulatory requirements to enhance scrutiny of company processes and governance as well as a series of voluntary initiatives, particularly in identifying and managing social and environmental risk. The Global Reporting Initiative (GRI) reporting framework, the OECD Guidelines for Multinational Enterprises and AA1000 framework are three leading voluntary protocols with detailed guidelines for the process and content of corporate performance monitoring. Revenue transparency is also an increasingly important theme in an effort to ensure better utilization of public funds and to fight corruption. The Extractive Industries Transparency Initiative (EITI), launched by the UK government and supported by other institutions including the World Bank, and Publish What You Pay both promote transparency of revenues and corporate payments to governments.

## VI. ROLES AND RESPONSIBILITIES OF THE CLIENT

14. It is reasonable to expect clients to be accountable for the environmental and social impacts of their projects. Such impacts should be analyzed, disclosed, and discussed with local communities to ensure that they are fully understood, negative impacts avoided or mitigated, and positive impacts enhanced. Consultation with local communities and other key stakeholders is necessary both in the project development stage and, in some cases, throughout the life of a project. Such information should be released as early as possible by the client, assuming it is in a reasonably comprehensive form, while using the engagement process to improve assessment of these issues and project design. Information should be in a form that is accessible and understandable to local communities, and at stages in the project cycle so that input is meaningful. Clients should also report on project impacts while projects are in operation.

15. According to IFC's proposed new Performance Standards, clients are responsible for evaluating, managing and reporting on the social and environmental impacts of their projects. IFC's role should be one of support and oversight of its clients, ensuring that a project meets IFC's standards through an Action Plan, and that the client is regularly engaging with the local community. IFC works with a broad range of clients from those who are experienced global players to small, locally owned companies with limited experience in managing environmental and social issues. For these less experienced clients, meeting

IFC's environmental and social standards may require considerable guidance from IFC, and this is fully consistent with IFC's role. However, ultimately, the client must take ownership of these issues. The potential implications of this new framework for client disclosures are identified in the box below.

#### **Proposed Framework for Client Disclosures**

- To promote community engagement and consultation, the client would disclose the social and environmental assessment (SEA) as soon as it is in a comprehensive form and prior to its full analysis by IFC. Disclosure of the assessment would be in the local language and updated, as necessary, as the project design is amended.
- Once IFC has determined that it is likely to proceed with the project and commit resources to it, IFC would post the client's SEA through its disclosure mechanisms (IFC's website, InfoShop, local IFC offices).<sup>7</sup> At the time of initial posting, it would be clear that the assessment had not yet been fully analyzed or approved by IFC. The SEA would continue to be amended, as necessary, until it was fully satisfactory to IFC prior to Board approval.
- IFC would prepare and release an SPI for the project as soon as it has reasonable confidence that it will proceed with the investment, and no less than 30 days prior to Board consideration of the project.
- Clients would be expected to monitor and publicly report against their Action Plans on a regular basis. IFC would post these reports through its disclosure mechanisms as well.

16. The desired timing effect of these changes would be that social and environmental disclosures may occur earlier - both locally and by IFC - than the current minimum of 60 days for Category A projects and 30 days for Category B projects. This would facilitate early engagement with the local community by the client and enhance the client's ability to incorporate community input into project design. Local support for projects should be enhanced through this approach. However, earlier release could mean that clients and/or IFC might be asked questions on environmental and social issues in projects that they may not be in the position to address fully at that time. Such issues would then need to be considered and addressed as necessary in the course of the project review process.

17. Financial Intermediary (FI) and municipal financing clients are categories that require special consideration due to the different nature of their businesses, and environmental and social requirements for these business lines are expected to be developed in the context of the implementation guidelines for the proposed new Performance Standards. Accordingly, in developing the revised disclosure policy, IFC would need to adapt disclosure requirements to these industries and provide adequate implementation guidance. Similarly, the revised disclosure policy will need to be adapted to corporate loans and equity investments, as well as to the technical assistance and advisory services that IFC provides.

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<sup>7</sup> Current minimum disclosure periods of "as early as possible and no less than 60 days for Category A projects and 30 days for Category B projects" would remain.

## **Government Contracts**

18. The Extractive Industries Evaluation and Review identified the importance of reporting on government contracts and revenue paid to governments for major extractive industries projects in promoting governance, reducing corruption and facilitating the appropriate use of such revenues. The World Bank Group now requires revenue transparency as a condition for new investments in the extractive industries sector.<sup>8</sup>

19. Private infrastructure projects that provide basic infrastructure services are among some of the government contracts that can have substantial impacts on the sharing of benefits, the prices that users pay for services or on government's ability to meet its other obligations. Such contracts have the potential to be caught in the midst of political debate and changes of government. Encouraging public disclosure of the main regulatory instruments governing the delivery of services to consumers, including licenses and concessions, would make transparent the rights and obligations of the service providers, government and consumers. Disclosure can be important in reducing risk for a project when such agreements are a key component in the viability of a company. Transparency related to such contracts can also improve governance and reduce corruption associated with revenues from contracts. IFC will work to facilitate such disclosure by its clients and to allow such disclosure by host governments.

## **VII. ROLES AND RESPONSIBILITIES OF IFC**

20. In considering a project, IFC evaluates how the project would contribute to its mission to promote sustainable private sector investment in developing countries. The decision to invest is based on a careful consideration of financial, economic, environmental and social, and other development issues and these considerations are articulated in the Board paper. Currently, this elaboration of IFC's "development intent" is not publicly disclosed in a systemic way. However, the presumption in favor of disclosure would support the regular public release of this information. The client would need to be consulted on IFC's assessment of its potential development impact and the value IFC anticipates it is bringing to a project. At this point, it seems reasonable to assume that such reporting would take place in the context of an expanded SPI. Indeed, in addressing this issue, the EIR response<sup>8</sup> suggests that in the case of extractive industry projects, such information, along with governance issues, will be reported in the SPI.

21. The Operations Evaluation Group (OEG) has found a strong positive correlation between IFC's financial performance and its development impact. However, IFC's reporting to the public on its development impact has been substantially more limited and uneven compared to the reporting on its financial performance. Currently, IFC's shareholders and the public judge IFC's effectiveness as a financial institution through its aggregate financial results, which are carefully examined by its auditors and the rating agencies. In addition, since 1996, IFC has been systematically measuring the development results achieved through its investment projects. As part of the Expanded Project Supervision Report (XPSR) system, commercial, economic, environmental, social, corporate governance and other development impacts of individual projects are measured annually for a representative sample of the portfolio according to an established, publicly disclosed evaluation framework. The findings, ratings and lessons are validated

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<sup>8</sup> See *Draft World Bank Group Management Response* (CODE2004-0044/1). For large projects, transparency would be required immediately for project payments to governments, and the relevant terms of key agreements would be made publicly available whenever these contracts are of public concern. Within two years, transparency will be expected about material extractive industry related payments to governments for all extractive industries projects that IFC supports.

by OEG and reported to the Board in OEG's *Annual Review of IFC's Evaluation Findings*. A summary of the annual review is publicly disclosed, and IFC has provided a brief summary of evaluation findings in its Annual Report.

22. Management believes that IFC should expand on the disclosure of its development impact, and that greater transparency in this regard will build confidence in IFC's execution of its development mandate and further public dialogue on development issues. This does not mean reporting information about financial and economic rates of return for individual projects, which often relies on confidential business information, the disclosure of which may affect a company's competitive position.<sup>9</sup> It is also important to note that in any one year, across IFC's portfolio, there may be individual projects that do not achieve their expected development impacts, while others may exceed expectations. As in the case of financial results, it is IFC's aggregate impact that needs to be scrutinized to assure that it is fulfilling its sustainable development mandate. Management therefore proposes to report publicly on *aggregate* development results in greater detail and in a more systematic manner to promote comparative and consistent analysis.

23. The potential implications of this new framework for IFC disclosures are identified in the box below.

#### **Proposed Framework for IFC Development Impact Disclosure**

- For each project prior to Board approval, in the SPI, IFC would publicly report on its development intent related to the individual investment decision, i.e., how it fits into IFC's strategy and how IFC's role in the project is expected to contribute to development.
- IFC would then publicly report on an *ex-post* aggregate basis, its annual development impacts in a systematic, comprehensive and comparable manner.

#### ***Strategies and Policies***

24. IFC's current disclosure policy indicates that the Board may approve public disclosure of Board papers on policy matters, sector or regional strategies. IFC typically includes in the Board paper a recommendation as to whether the strategy or policy should be disclosed following Board consideration.

25. In any given year, IFC's Board may consider several IFC strategy or policy papers; sometimes for formal Board approval and other times for informal discussion. IFC's annual Strategic Directions paper, although not formally approved, is discussed with the Board and routinely disclosed thereafter. Such disclosure has proven to be successful as measured by the degree of interest in the paper, and has demonstrated accountability and willingness to be evaluated against this strategy.

26. In the interest of promoting efficiency and accountability, IFC would suggest that following Board consideration, policy papers where Board approval is warranted would be routinely publicly disclosed, except where the Board and management agree that disclosure may impact the financial integrity of IFC.

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<sup>9</sup> Disclosure related to a company's financial performance is based on country laws and industry standards and it would not be possible for IFC to make such disclosures on behalf of each of its clients. Indeed, IFC is also often asked to enter into confidentiality agreements with clients to protect this information.

## **Board Minutes**

27. The Corporate Secretariat for the World Bank Group prepares minutes of all formal IFC Board meetings. The minutes typically contain names of those who were present, record of the approval of the minutes of previous Board meetings, name of the presenter and the broad subject of any oral briefings, titles of papers discussed, the agreements and decisions reached, and names of the Directors abstaining or objecting.

28. Under the current policy contained in the Rules of Procedure for the Meetings of the Board of Directors, the minutes of Board meetings and Board committee meetings are not available to the public. The changing climate regarding disclosure issues has in turn changed expectations of transparency at a variety of levels of IFC's operations. Given the importance of governance issues and to build public trust further, IFC would benefit from disclosure of minutes of its Board meetings after the Board approves them. A similar proposal is currently being considered for World Bank Board minutes.<sup>10</sup> Comparing this approach to other multilateral development banks, the IDB currently makes its Board minutes available to the public, and ADB's draft Public Communications Policy includes a recommendation to make Board minutes publicly available.

29. Material determined by the Board to be too sensitive for public distribution would need to be redacted prior to disclosure. Minutes of Executive Session of the Board would not be disclosed, nor would Board transcripts or summaries of Board discussions.<sup>11</sup>

## **VIII. CONCLUSION**

30. Sustainable private sector investment relies on transparency as a core value. In developing these principles, primary focus was on meeting the needs of project-affected people to receive timely information, and supporting the governance role of IFC's shareholders and the public. Through a revised disclosure policy, IFC expects to better address stakeholder needs and increase the level of trust with key constituencies, while reducing risk and improving the development outcomes of IFC projects.

31. IFC is now ready to begin the process of external engagement that will lead to development of a revised disclosure policy. Accordingly, this Concept Paper will be used as an external consultation document.

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<sup>10</sup> See *World Bank Disclosure Policy: Additional Issues* (June 15, 2004).

<sup>11</sup> Summaries of Board discussions are prepared solely to inform IFC staff about the meeting and are not approved by the Board.