# International Finance Corporation's
# Policy on Environmental and Social Sustainability

January 1, 2012

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# Policy on Environmental and Social Sustainability

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## 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:

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| 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.

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| 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