

Non-attributable background note for the press

The International Finance Corporation's new environmental and social requirements

From "Environmental and Social Safeguard Policies"
to "Policy and Performance Standards on Social and Environmental Sustainability"

The new IFC Standards will be among the strongest environmental and social standards globally, and certainly the strongest in the emerging markets. They add new requirements relating to integrated social and environmental assessments, core labor standards, greenhouse gas emissions, and community health and safety standards. They address gaps in the previous Safeguard Policies. They emphasize private sector considerations while ensuring compatibility with IFC's policies. They require greater transparency. They follow a new outcomes-based approach which emphasizes implementation and outcomes. They define better the roles of IFC and its private sector clients.

Adoption of the new Standards

The Board of IFC adopted on 21 February the new environmental and social standards. They will be made public early March and their implementation is scheduled starting from April 30, 2006.

The old safeguards – still in place until spring 2006

IFC adopted its Environmental and Social Safeguard Policies and its Disclosure Policy in 1998. These Policies are currently in place but they will be replaced by the new Policy and Performance Standards and the new Disclosure Policy in the spring of 2006.

There are currently ten safeguard policies addressing key environmental and social development issues: environmental assessment, natural habitats, pest management, forestry, safety of dams, international waterways, indigenous people, involuntary resettlement, cultural property and child and forced labor. The Safeguard Policies provide IFC with the framework to minimize and mitigate environmental and social risks in the projects IFC finances.

How the review came about

There were external and internal drivers to the review. Internally, IFC started to transition to a new business model of sustainable development, which is based on the premise that long-term profitability and strong project outcomes are better secured by companies that manage all of their risks well.

Also, IFC's growing experience with the Safeguard Policies was indicating that those policies were not adequate to the complex project situations on the ground. This was bolstered by increasing public criticism of some projects that did not have the development outcomes wanted.

In 2001, IFC management requested a review of the policies by IFC's Compliance Advisor Ombudsman (CAO) (see below about the CAO). The CAO's final report, "A Review of IFC's Safeguard Policies", was released in April 2003. Following that review, IFC launched an update of its Safeguard Policies and Disclosure Policy as well as key guidance material.

The new standards – the structure

The new IFC policy framework for environmental and social standards and for disclosure consists of six documents:

The first three documents are formal policy for the IFC and its clients and were approved by the IFC Board of Directors.

- **The Sustainability Policy** defines IFC's responsibility for supporting project performance in partnership with clients
- **The Performance Standards** define clients' roles and responsibilities for managing their projects and the requirements for receiving and retaining IFC support. The standards include requirements to disclose information.

There are **8 Performance Standards**:

1. Social and Environmental Assessment and Management System
 2. Labor and Working Conditions
 3. Pollution Prevention and Abatement
 4. Community Health, Safety and Security
 5. Land Acquisition and Involuntary Resettlement
 6. Biodiversity and Sustainable Natural Resource Management
 7. Indigenous Peoples
 8. Cultural Heritage
- **The Disclosure Policy** defines IFC's obligations to disclose information about itself as an institution and its activities. (Public disclosure requirements for clients are found in the proposed Performance Standards as an integral part of directives to engage in early and ongoing engagement with community that are affected by projects.)

The three others are supporting documents which are not policy and serve as advisory or reference material for the new policy structure. They give direction to IFC staff and clients in implementing the proposed Sustainability Policy and Performance Standards.

- **Guidance Notes**, which are companion documents to the Performance Standards and provide additional guidance to clients (and IFC staff) in fulfilling their roles and responsibilities under the standards.

- **Environmental and Social Review Procedure**, which gives direction to IFC officers in implementing the Sustainability Policy and reviewing compliance and implementation by private sector projects.
- **Environment, Health & Safety (EHS) Guidelines**, which are technical guidance informing those parts of the new policy structure related to environmental, health and safety issues.

The new standards – the improvements

The new **Sustainability Policy and Performance Standards** clearly state IFC's requirements applicable to all IFC projects. They also add new requirements relating to integrated social environmental assessments, core labor standards, greenhouse gas emissions, and community health and safety standards. They address gaps in the previous Safeguard Policies. They emphasize private sector considerations while ensuring compatibility with IFC's policies.

IFC is taking a new outcomes-based approach to environmental and social protection. This approach is based on firms establishing effective management systems as part of their basic operations to ensure compliance with IFC requirements and ensure results on the ground.

- **Integrated Business Model.** Strong outcomes are most likely when companies can incorporate standards into internal management systems and understand the business case for doing so.
- **Requirements tailored to specific risks.** Since no policy can anticipate all scenarios and risks, the new standards define clear outcomes and help clients assess specific project risks comprehensively. The requirements for achieving specific outcomes go into a public Action Plan and become part of the legal agreement with IFC.
- **Adaptable means to strong outcomes.** The new approach lets companies consider diverse means, and seize new opportunities, for achieving required outcomes. This enables the private sector to do what it does best – manage projects efficiently, innovate, improve performance over time – for the long-term benefit of local people and the environment.

The **Performance Standards** reflect IFC's extensive experience of what works in developing countries, as well as emerging good practice.

- **New and expanded standards.**
 - Integrated assessment and management systems: a new standard integrates environmental and social assessments and requires use of management systems to ensure effective performance in these areas throughout a project's life
 - Labor Rights: a broader policy addresses all four core ILO labor standards (forced labor, child labor, nondiscrimination, and freedom of association and collective bargaining) and requires a comprehensive approach to labor and working conditions.
 - Human Rights: IFC now references human rights and incorporates key concerns—including adequate housing, security of tenure, and voluntary principles on security—into its performance standards.
 - Community Health and Safety: a new standard requires firms to consider a project's effects on health and safety in the surrounding community beyond the project itself.

- Pollution Prevention and Abatement: a new standard requires clients to prevent or minimize pollution and its impact on the environment and quantify a project's greenhouse gas emissions.
- **Expanded social review.** Integrated social assessment means that the performance standards now encompass all vulnerable groups and related social issues, while continuing to put special attention on the complexity of involuntary resettlement, Indigenous Peoples and cultural heritage.
- **Increased community engagement.** IFC will require early and informed community participation in developing a project and ongoing community engagement throughout a project's lifecycle. Related new requirements:
 - Broad community support: IFC must be satisfied that this is in place for large projects with significant impacts.
 - A grievance mechanism must be established by the community to address any community concerns.
- **New comprehensive approach to biodiversity.** IFC is expanding its focus beyond preservation of natural habitats to a broader view of protection and conservation of biodiversity.
 - Habitat destruction and invasive alien species are recognized as the major threats to biodiversity, and the standard specifies how to address them in natural and modified habitats.
 - Sustainable management of all renewable natural resources is required, to be demonstrated by independent certification in sectors such as forestry.

The new proposed **Disclosure Policy** clarifies and expands the responsibilities of IFC to disclose corporate information to the public. It determines 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. It distinguishes between IFC's corporate disclosure and sponsors' project-level disclosure. It reduces risk and improves development impact of IFC investments through consultation and its resulting dialogue. It encourages transparency by project sponsors and in member countries. It determines the appropriate timing for release of information. And finally, it increases appreciation of IFC's development impact and business performance.

- **More disclosure by IFC.** The revised proposed Disclosure Policy improves IFC's process for disclosing information and expands the types of information disclosed:
 - A new, request-driven disclosure process and internal review mechanism will make it easier for the public to request information; to receive a timely response or an explanation if any of the request is denied; and to challenge disclosure decisions by filing a complaint with the proposed Disclosure Policy Advisor, whose role will be to review these decisions and advise IFC.
 - An expanded group of documents for routine disclosure will include IFC's Budget and Business Plan; minutes from IFC Board meetings; annual reporting on the aggregate development impact of IFC's activities; and a summary of IFC's environmental and social review as well as information on expected development impacts in the public Summary of Proposed Investment for each investment project.
- **More disclosure by client companies.** The Policy and Performance Standards define responsibilities for timely disclosure by IFC's clients in support of community engagement throughout the life of a project. Requirements include:

- Disclosure of key information at the beginning of a project, including its size, purpose, and duration; expected risks and impacts; findings from social and environmental assessment; and the client's Action Plan to address any problems identified.
- Ongoing disclosure to address implementation of the Action Plan and issues raised by affected communities, particularly those related to health and the environment.

Review timeline

Oct. 2003 -	Launch of the Safeguard Policies' update
Aug. 2004 -	First draft of the Policy and Performance Standards and the Disclosure Policy released for consultation
Nov. 2004 -	First draft of the Guidance Notes released
April. 2005 -	End of the consultation period
Sept. 2005 -	Second draft of the Policy and Performance Standards and the Disclosure Policy released for public comment, along with the second draft of the Guidance Notes and the first draft of the Environmental and Social Review Procedure
25 Nov. 2005 -	End of final comment period
21 Feb. 2006 -	The Policy and Performance Standards and the Disclosure Policy are adopted by the Board of Directors
30 April 2006 -	The Policy and Performance Standards and the Disclosure Policy become effective

Briefly... about the Compliance Advisor/Ombudsman

The CAO, an independent office that reports directly to the President of the World Bank Group has three roles:

- **Ombudsman:** To advise and assist IFC to address Complaints by people directly impacted by projects in a manner that is fair, objective and constructive. It is aimed at resolving issues by providing a context and process for parties to find mutually satisfactory solutions. It is focused on identifying problems, recommending actions, using conflict resolution and mediation approaches and addressing systemic issues, where necessary.
- **Compliance:** To oversee compliance reviews of IFC, overall environmental and social performance, and specific projects.
- **Advisor:** To provide independent advice to the President and management on specific projects as well as broader environmental and social policies, guidelines, procedures and resources.

Briefly... about the consultation process

IFC's extensive process of consultation and public comment consisted in several stages. These include asking outside experts to help IFC do gap analyses and other reviews to identify areas to be updated. This process has also been informed by the extensive consultations that took place for the Extractive Industry Review.

IFC launched its formal public consultation process for the Safeguards Update and Policy Review in August 2004. This process lasted eight months, during which the IFC made all relevant documents available on its website in several languages (French, Spanish, Portuguese, Chinese, Arabic and Russian). After the consultation period ended in April 2005, the IFC posted an indicative draft that placed a summary of all documents into the initial policy documents. People were also able to post comments and review those of others on an externally managed website that helped facilitate comments. In September 2005, IFC produced a "Response to Stakeholder Comments", which explained the rationale behind the changes made to the initial draft policies and responded broadly to the comments and suggestions made during the consultation period.

On September 22, 2005 IFC launched a final public comment period on the new draft Policy and Performance Standards and the draft Policy on Disclosure. Public comment has been essential to making the proposed policies better and led to significant revision of the original draft policies released in August 2004.

Beyond the IFC, the Equator Principles

Forty one major banks have signed on to the Equator Principles. This means that these 41 banks, which are estimated to arrange 80 percent of global project lending (representing \$97.5 billion), have pledged to follow the environmental and social standards of the IFC to all their development projects with a capital cost of \$50 million or more.

The revision of the IFC's environmental and social standards will thus have an impact on these banks' development projects as well as on the IFC's.

The list of Equator Banks is available at: <http://www.equator-principles.com/>

Key documents on the internet (see <http://www.ifc.org/policyreview>)

- Policy on Social and Environmental Sustainability and Performance Standards - *Final*
- Policy on Disclosure of Information - *Final*

- Draft – Guidance Notes
- Draft – Environmental and Social Review Procedure
- Draft – Environment, Health and Safety (EHS) Guidelines

Documents explaining the changes included in the drafts following consultations:

- IFC Response to Stakeholder Comments & Rationale for Key Policy Changes
- IFC note on IFC Note on CAO Review of New Draft Policy