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## Natural Habitats

*Note: This policy applies to projects financed by the International Finance Corporation (IFC). In case of doubt, any determination of what is acceptable to IFC under this policy is made by the Vice President, Investment Operations in consultation with the Vice President with corporate responsibility for environmental issues, the Technical and Environment, and Legal Departments. Questions should be addressed to the Associate Director, IFC's Environment Division.*

1. The conservation of natural habitats,<sup>1</sup> like other measures that protect and enhance the environment, is essential for long-term sustainable development. IFC<sup>2</sup> therefore supports the protection, maintenance, and rehabilitation of natural habitats and their functions in its project financing and advisory activities. IFC supports, and expects project sponsors to apply, a precautionary approach to natural resource management to ensure opportunities for environmentally sustainable development.

### Project Design and Implementation

2. As part of a private sector project IFC supports natural habitat conservation, improved land use and the maintenance of ecological functions. Furthermore, IFC promotes the rehabilitation of degraded natural habitats.

3. IFC does not support projects that, in IFC's opinion, involve the significant conversion or degradation<sup>3</sup> of critical natural habitats.

4. Wherever feasible, IFC financed projects are sited on lands already converted (excluding any lands that in IFC's opinion were converted in anticipation of the project). IFC does not support projects involving the significant conversion of natural habitats unless there are no feasible alternatives for the project and its siting, and comprehensive analysis demonstrates that overall benefits from the project substantially outweigh the environmental costs. If the environmental assessment<sup>4</sup> indicates that a project would significantly convert or degrade natural habitats, the project includes mitigation measures acceptable to IFC. Such mitigation measures include, as appropriate, minimizing habitat loss (e.g., strategic habitat retention and post-development restoration) and establishing and maintaining an ecologically similar protected area. IFC accepts other forms of mitigation measures only when they are technically justified.

5. In deciding whether to support a project with potential adverse impacts on a natural habitat, IFC takes into account the project sponsor's ability to implement the appropriate conservation and mitigation measures. If there are potential capacity problems with a project sponsor, the project includes a component to build additional capacity for effective environmental planning and management.

6. In projects with natural habitat components, project appraisal and supervision arrangements include appropriate environmental expertise to ensure adequate design and implementation of mitigation measures by the project sponsor.

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<sup>1</sup> These are defined in Annex A.

<sup>2</sup> The International Finance Corporation (IFC) is the World Bank Group entity with a mandate to invest in private sector projects in developing member countries. It lends directly to and makes equity investments in private companies without guarantees from governments and attracts other sources of funds for these projects. IFC also provides advisory services and technical assistance to governments and businesses. This policy also covers projects funded under the Global Environment Facility (GEF).

<sup>3</sup> These are defined in Annex A.

<sup>4</sup> See OP 4.01, Environmental Assessment.



7. This policy applies to investments through financial intermediaries when IFC funds are targeted to specific subprojects.<sup>5</sup>

### Consultation

8. IFC expects the project sponsor to take into account the views, roles, and rights of groups, including local nongovernmental organizations and local communities,<sup>6</sup> affected by IFC-financed projects involving natural habitats, and to involve such people in planning, designing, implementing, and monitoring such projects. Involvement may include identifying appropriate conservation measures, managing protected areas and other natural habitats, and monitoring projects. IFC encourages the project sponsor to provide such people with appropriate information on the protection of natural habitats.

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<sup>5</sup> See OP 4.01, Environmental Assessment.

<sup>6</sup> See OD 4.20, Indigenous Peoples, when local communities include indigenous peoples.



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## Annex A—Definitions

1. The following definitions apply:

Natural habitats<sup>1</sup> are land and water areas where (i) the ecosystems' biological communities are formed largely by native plant and animal species, and (ii) human activity has not essentially modified the area's primary ecological functions. All natural habitats have important biological, social, economic, and existence value. Important natural habitats may occur in tropical humid, dry, and cloud forests; temperate and boreal forests; mediterranean-type shrublands; natural arid and semi-arid lands; mangrove swamps, coastal marshes, and other wetlands; estuaries; seagrass beds; coral reefs; freshwater lakes and rivers; alpine and subalpine environments, including herbfields, grasslands, and paramos; and tropical and temperate grasslands.

- a) Critical natural habitats are:

- i) existing protected areas and areas officially proposed by governments as protected areas (e.g., reserves that meet the criteria of the World Conservation Union [IUCN] classifications<sup>2</sup>), areas initially recognized as protected by traditional local communities (e.g., sacred groves), and sites that maintain conditions vital for the viability of these protected areas (as determined by the environmental assessment process<sup>3</sup>); or
- ii) sites identified on supplementary lists prepared by the World Bank or an authoritative source determined by IFC's Environment Division. Such sites may include areas recognized by traditional local communities (e.g., sacred groves); areas with known high suitability for biodiversity conservation; and sites that are critical for rare, vulnerable, migratory, or endangered species.<sup>4</sup> Listings are based on systematic evaluations of such factors as species richness; the degree of endemism, rarity, and vulnerability of component species; representativeness; and integrity of ecosystem processes.

- b) Significant conversion is the elimination or severe diminution of the integrity of a critical or other natural habitat caused by a major, long-term change in land or water use. Significant conversion may include, for example, land clearing; replacement of natural vegetation (e.g., by crops or tree plantations); permanent flooding (e.g., by a reservoir); drainage, dredging, filling, or channelization of wetlands; or surface mining. In both terrestrial and aquatic ecosystems, conversion of natural habitats can occur as the result of severe pollution. Conversion can result directly from the action of a project or through an indirect mechanism (e.g., through induced settlement along a road).

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<sup>1</sup> It should be noted that much biodiversity is contained outside natural habitats and is therefore not the subject of this policy (for example as part of agricultural landscapes). This issue will be dealt with in the Natural Habitats and Ecosystem Management Handbook (forthcoming).

<sup>2</sup> As indicated in Guidelines for Protected Area Management Categories (Gland, Switzerland, and Cambridge, UK: IUCN, 1994), and the United Nations List of National Parks and Protected Areas (Gland, Switzerland, and Cambridge, UK: IUCN, 1994), or by a similar list acceptable to IFC, published by another competent organization. IUCN categories are as follows: I—Strict Nature Reserve/Wilderness Area: protected area managed for science or wilderness protection; II—National Park: protected area managed mainly for ecosystem protection and recreation; III—Natural Monument: protected area managed mainly for conservation of specific natural features; IV—Habitat/Species Management Area: protected area managed mainly for conservation through management intervention; V—Protected Landscape/Seascape: protected area managed mainly for landscape/seascape conservation and recreation; and VI—Managed Resource Protected Area: protected area managed mainly for the sustainable use of natural ecosystems.

<sup>3</sup> See OP 4.01, Environmental Assessment.

<sup>4</sup> Rare, vulnerable, and endangered as defined in the IUCN Red List of Threatened Animals.



- c) Degradation is modification of a critical or other natural habitat that substantially reduces the habitat's ability to maintain viable populations of its native species.
  
- d) Appropriate conservation and mitigation measures remove or reduce adverse impacts on natural habitats or their functions, keeping such impacts within socially defined limits of acceptable environmental change. Specific measures depend on the ecological characteristics of the given site. They may include full site protection through project redesign; strategic habitat retention; restricted conversion or modification; reintroduction of species; mitigation measures to minimize the ecological damage; postdevelopment restoration works; restoration of degraded habitats; and establishment and maintenance of an ecologically similar protected area of suitable size and contiguity. Such measures should always include provision for monitoring and evaluation to provide feedback on conservation outcomes and to provide guidance for developing or refining appropriate corrective actions.