

## **Improving IFC's Approach to Environmental and Social Risk Management**

### ***Listening, Learning, and Adapting*** (updated April 2017)

***IFC has strong policies and processes to identify, manage, and monitor environmental and social (E&S) risks, but recognizes the need for continued learning and improvement – particularly as we increasingly engage in complex projects and challenging contexts. Helping companies overcome challenges and improve E&S performance is key to both enhanced development outcomes and strong risk management.***

We strongly value evaluation of and feedback on our work from the CAO and other stakeholders. We embrace the principle that we must learn from past experience and integrate these lessons into our ongoing work with our clients. While Performance Standards (PS) implementation will never be perfect, our focus is on ensuring that we learn from difficult cases and mainstream lessons learned throughout operations so that we can respond more rapidly when problems arise and provide more enhanced support to our clients.

**We are listening, learning, and adapting. Below are several examples of steps taken or current efforts to improve our environmental and social risk oversight that stem directly from feedback we have received from the CAO and other stakeholders, and from our staff's experience.**

#### **1) New Approach to High-Risk Commodity Supply Chains: Introduced more rigorous E&S requirements and screening.**

Following the 2009 Palm Oil Moratorium, IFC developed a strategy for palm oil-related investments (2011) resulting in improvements in IFC's due diligence and supervision of high risk commodity supply chains.

- Improvements include incorporation of more rigorous supply chain requirements in the 2012 Performance Standards and development of E&S screening tools which collectively provide IFC with key insights into project-related and contextual risks, including supply chain risks. Examples include:
  - The Global Map of Environmental and Social Risks in Agro-Commodity Production (GMAP), which is widely used by most DFIs and Equator Banks;
  - Integrated Biodiversity Assessment Tool (IBAT);
  - High Conservation Value Assessments by credible third parties; and
  - Country Situation Analysis, undertaken (in collaboration with the World Bank) prior to any new palm oil investment.
- IFC also developed a *Good Practice Handbook for Agro-Commodities Risk Assessment and Management (2013)*, which outlines approaches to identifying and mitigating supply chain risks.
- *Informed by projects such as: Wilmar*

## **2) Phased Developments: Developed new E&S procedural guidance.**

Phased development projects are those where IFC makes a financial investment, usually equity, in a company engaged in preliminary development stage activities – such as scoping, design, planning, and exploration or feasibility studies. If additional IFC investment is made in a subsequent phase of development of the project (e.g., mine development), it would be considered as a new project with separate E&S due diligence, categorization, and public disclosure period prior to Board approval.

- IFC has developed and is now implementing new procedural guidance (ESRP 13) for staff on E&S appraisal, categorization, and supervision of IFC's investments in phased development projects.
- IFC is currently putting in place new procedures for E&S notification on rights issues and warrants which previously could proceed without any E&S review. The new notification requirements will now allow for E&S input and consideration of project categorization on rights issues and warrants, where appropriate.
- *Informed by learning from CAO cases such as: Quellaveco, Eco Oro, Lydian*

## **3) Contextual Risk: Focusing more on risks in the external operating environment.**

Some of the most challenging E&S risks faced by IFC clients come from the external operating environment, not the project itself – such as systemic discrimination, conflict, or widespread disease. IFC is paying more attention in its E&S due diligence to assessing such risks that the client does not control (i.e., at country, sector, or sub-national level). Contextual risks can impact the client's ability to meet IFC's E&S requirements or achievement of a project's anticipated development objectives.

- IFC has developed new E&S procedural requirements to systematically screen projects for contextual risks and factor these risks into decision-making and overall risk management.
- IFC is also making efforts to better capture and present contextual risks, and be clear about the limitations of private sector clients to address these, in project documentation and to the Board for discussion.
- *Informed by learning from CAO cases such as: Avianca, Dinant, Tata Mundra, LRIF/Santa Rita, CIFI/Santa Cruz, Indorama, Tata Tea etc.*

## **4) Financial Intermediary (FI) Investments: Greater focus on reducing IFC's own exposure to higher risk FI activity and more in-depth engagement with clients.**

Greater focus on client selection and engagement has delivered improvements – over the last several years, clients with unsatisfactory and partly unsatisfactory performance have declined and clients with satisfactory or better performance have been steadily increasing. Looking forward, IFC seeks to lower its exposure to high-risk FI clients and activities, and to focus its E&S staff resources in a more targeted manner on high-risk FI exposures.

- IFC has committed to not do repeat business with clients with unsatisfactory E&S performance, and to seek to exit the relationship with consistent poor performers who lack commitment to improve.
- IFC is reallocating E&S staff resources to focus its attention on higher risk clients. In addition, this fiscal year, IFC developed enhanced client engagement strategies for 41 clients to support implementation of IFC's E&S requirements. IFC is also scaling up training opportunities for FI clients – over the past two years IFC delivered training for private equity fund clients in Asia, Africa, Europe, and Latin America.
- IFC no longer provides general credit lines to FIs with medium to high E&S risk. IFC also does not give credit lines or loans to FIs to finance coal-related projects, though some may have coal exposures in their portfolios. IFC has begun tracking FI clients' exposure to coal, and plans to incorporate a reporting requirement on coal exposures in legal documents with all new FI clients.
- The share of equity in IFC's (non-Funds) FI business has been on the decline. IFC continues to be more selective in its FI equity business, with E&S considerations being a key factor in the decision-making process.

#### **4) Labor Issues: Building IFC's internal capacity to better assess and address labor concerns.**

IFC's 2012 *Performance Standard (PS) 2: Labor and Working Conditions* outlines a range of requirements on labor-related topics such as human resources, working conditions, occupational health and safety, workers' organizations, non-discrimination and equal treatment, retrenchment, grievance mechanisms, child and forced labor, contracted workers, and supply chains. To provide support to internal staff and external clients facing challenging labor issues, IFC has enhanced its ongoing efforts on PS2.

- IFC now regularly engages external labor experts to help advise staff and clients, and to build our internal capacity to manage projects with high risk labor issues. They have delivered numerous trainings and produced guidance for E&S Specialists and IFC clients on a range of PS 2 related topics.
- IFC also maintains an ongoing dialogue with unions, including *the International Trade Union Confederation (ITUC)*, to discuss labor concerns at both the policy and project levels.
- *Informed by learning from CAO cases such as: Avianca, Tata Tea, Indorama, Montelimar, Nicaragua Sugar Estates Limited, Bilt, Bujagali.*
- *Informed by learning from CAO cases such as: FI Audit*

#### **5) Use of Security Forces: Deepening our focus, building capacity, and offering more client support.**

IFC is deepening its focus on the Security Forces-related dimensions of *Performance Standard (PS) 4: Community Health, Safety and Security* and has established a new work program to build capacity and support E&S Specialists and clients on high risk projects.

- IFC is building capacity by engaging external experts on the use of security forces to advise and support IFC and clients, and to provide direct project assistance on complex or challenging use of security forces issues.
- IFC has also developed guidance on the topic of security forces, including both internal due diligence guidance for E&S Specialists and a new *Good Practice Handbook* for clients, recently launched in March 2017.
- IFC has developed and delivered mandatory in-depth training for E&S Specialists, as well as a training workshop for clients working in high risk contexts in West Africa.
- *Informed by learning from CAO cases such as: Dinant, LRIF/Santa Rita, Tata Tea, Wilmar*

#### **6) Land and Resettlement Issues: Launching a revision process to update guidance.**

In recognition of the importance of issues related to *Performance Standard (PS) 5: Land Acquisition and Involuntary Resettlement*, IFC is substantially updating its *Resettlement Handbook* to include lessons learned in consultation with CAO, CSOs and other DFIs working in this space.

- *Informed by learning from CAO cases such as: Dinant, Agri-Vie, Bujagali, Cambodia Airports, Chad-Cam, Oyu Tolgoi, VEIL, CIFI/Santa Cruz, , Wilmar*

#### **7) Coastal Erosion: Identifying resources and improved guidance.**

A key area of learning for IFC is that coastal process modeling and management is a highly specialized field, which requires very specific technical expertise. In response to the findings in the CAO investigation of the LCT Togo investment, IFC acknowledges the need to be better equipped to carry out detailed reviews of modeling studies where needed.

- IFC will engage specialized consultants to help strengthen our approach to coastal erosion.
- IFC has recently revised its *EHS Guideline for Ports, Harbors and Terminals (February 2017)*, which now includes a new section on coastal erosion reflecting learning from Togo and other projects.
- *Informed by learning from CAO cases such as: LCT Togo*

#### **8) Joint IFC-CAO Lessons Learned Workshops: Organized learning events in partnership with CAO.**

To identify and incorporate lessons learned from past projects, IFC and CAO have jointly undertaken several internal workshops. These have focused on a specific sector, and have brought together staff from investment departments, E&S specialists, and CAO to discuss challenging projects and good practices that may apply across the sector.

- Infra (Jun 2014) – Transformational Projects in Energy Sector;
- FIG (May 2015) – Applying E&S Lessons from FI projects;
- MAS (Sept 2016) – Applying E&S lessons to IFC's Agri/Forestry Business; and
- IFC/CAO (March 2017) – Facilitated one-day discussion on Institutional Accountability for E&S Impacts and IFC-CAO Relationship.

