Our Lessons from the Past 10 years

Realization that IFC needs:

- Internal capacity to address environmental and social risks
- Commitment to address social issues
- Commitment to disclosure and transparency
- Clear statement of its standards and procedures

—Clear allocation of responsibilities between lender and borrower
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<th>Spending ($mils)</th>
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<td>2005</td>
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Environment Social Development Dept: 1994 to Today
Rationale for a new Sustainability Policy Framework

- Meet internal and market demand for clear and concise policies
  - Clarify who does what
- Tailor policy requirements to the strengths and limits of the private sector
- Address emerging issues for private sector projects in emerging markets
  - Many new areas are social issues
- Update policies to reflect IFC good practice
- Focus on outcomes
Sustainability Policy Framework

**Requirements**

- Disclosure Policy
- Sustainability Policy

**Implementation**

- Environmental and Social Review Procedure

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**IFC - Institutional**

- 8 Performance Standards

**Client - Project Level**

- 8 Guidance Notes
- Environmental, Health & Safety Guidelines
- Good Practice Materials
Key Features of Performance Standards

- Principles based, not rules based
- Outcomes oriented, not procedure based
- Addressing project risks by looking at:
  - Relevant international agreements
  - New set of social issues
    - This means looking at vulnerability of affected communities, labor and working conditions, security forces’ impacts on local communities.
    - Continue to address resettlement, Indigenous Peoples, culture.
  - Climate change and greenhouse gases
  - All aspects of biodiversity
- The basis of the Equator Principles
Overview Performance Standards

- **PS 1**: Social & Environmental Assessment and Management System
- **PS 2**: Labor and Working Conditions
- **PS 3**: Pollution Prevention and Abatement
- **PS 4**: Community Health, Safety & Security
- **PS 5**: Land Acquisition and Involuntary Resettlement
- **PS 6**: Biodiversity Conservation and Sustainable Natural Resource Management
- **PS 7**: Indigenous Peoples
- **PS 8**: Cultural Heritage
Client’s process requirements:

- Integrated **Social and Environmental Assessment** geared to impacts and risks = a helpful diagnostic tool for business
- Assessment as a component of a **Social and Environmental Management System**
- Community engagement
  - Consultation and ongoing reporting on Action Plans
  - Free, prior, and informed consultation
    - IFC to verify broad community support
  - Grievance Mechanism
Where we are today

- Implementation, implementation, implementation
  - Training
  - Internal systems upgrade, data collection, guidance materials and tools, peer reviews, lessons learned. . . .

- With external stakeholders, establish and maintain a community of learning
  - Stakeholder portal to maintain ongoing dialogue
  - EPFIs as a special stakeholder group
    - Because they have explicitly committed to apply the Performance Standards
Equator Principles in a Nutshell

- A framework for banks to manage environmental and social risks in project finance
- A voluntary, private-sector initiative
- Based on IFC’s Performance Standards and Environmental, Health and Safety Guidelines
- First announced in June 2003 with ten banks
- Relaunched as “EP2” in July 2006, referring to the new IFC standards
- Now 42 financial institutions
Profile of EPFIs

- Many from Europe and North America
  - Includes three Japanese banks and one Australian bank
  - Four Brazilian banks and one South African bank represent emerging markets banks
- Some are state-owned banks
- Includes the Danish export credit agency (EKF) and the Dutch bilateral development institution (FMO)
- Some are not involved in project finance
- More to come
EP Application

- Project financing with total project cost of $10 million or more + project finance advisory services
  — Also apply to significant expansion/upgrade projects
- All industry sectors
- All projects must undergo social and environmental review and categorization
- Performance Standards & EHS Guidelines apply to low and middle income countries (as defined by the World Bank)
EP 2 – Ten Principles

- Principle 1: Review and Categorization
- Principle 2: Social and Environmental Assessment (Process)
- Principle 3: Applicable Social and Environmental Standards
  - High-income OECD countries vs. Emerging Markets
- Principle 4: Action Plan and Management System
- Principle 5: Consultation and Disclosure
- Principle 7: Grievance Mechanism
- Principle 8: Independent Review
- Principle 9: Covenants
- Principle 10: EPFI Implementation Reporting
EP -- Benefits to Banks

- Better information for banks to make decisions
- Expedite allocation of responsibilities and consensus-reaching among banks in large loan syndications
  — Any deal with an EFPI in syndicate has to be de facto Equator compliant
- Provide basis for stakeholder engagement
  — Considered by many banks to be a major benefit
IFC’s Role

- A convening / facilitation role & neutral party
  - Not the enforcer
- Based on IFC Standards and Guidelines
- Training / community of learning
  - Training available through licensed consultants
- Great potential for new EPFIs in emerging markets
Information & Resources

- More information on EP2
  
  [www.equator-principles.com](http://www.equator-principles.com)

- IFC’s Sustainability Policy & Performance Standards
- Information on Performance Standards training
- Good practice publications
  
  [www.ifc.org/enviro](http://www.ifc.org/enviro)

- IFC’s EHS Guidelines Update
  
  [www.ifc.org/ehsguidelinesupdate](http://www.ifc.org/ehsguidelinesupdate)

- Coming soon: IFC’s stakeholder portal