



IFC

**The International Finance
Corporation
Procedure for Environmental**

December 1998

Procedure For Environmental And Social Review Of Projects

List of Acronyms

CAP	Corrective Action Plan
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CLO/CBO	Collateralized Loan Obligation/Collateralized Bond Obligation
EA	Environmental Assessment
EAP	Environmental Action Plan
EIA	Environmental Impact Assessment
ERS	Environmental Review Summary
ESCM	Environmental and Social Clearance Memorandum
ESIM	Environmental and Social Information Memorandum
ESQ	Environmental and Social Questionnaire
FI	Financial Intermediary
GP	Good Practice
IAR	Investment Assessment Report
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IPC	Investment Policy Committee
IPM	Integrated Pest Management
IRM	Investment Review Meeting
MFI	Multilateral Financial Institutions
MIGA	Multilateral Investment Guarantee Association
MOR	Monthly Operations Report
NGO	Non-governmental organization
ODSs	Ozone Depleting Substances
OP	Operational Policy
PSR	Project Supervision Report
PCBs	Polychlorinated biphenyls
PCDP	Public Consultation and Disclosure Plan
PDS	Project Data Sheet
SPI	Summary of Project Information
TOR	Terms of Reference
WHO	World Health Organization

TABLE OF CONTENTS

LIST OF ACRONYMS	I
INTRODUCTION	1
POLICIES AND GUIDELINES	1
POLICIES	1
GUIDELINES	1
<i>Pollution Prevention and Abatement Handbook</i>	1
<i>Occupational Health and Safety Guidelines</i>	2
<i>Reference Materials</i>	2
<i>Exclusions</i>	2
IFC'S PROJECT CYCLE	4
INTRODUCTION	4
THE PROJECT CYCLE	4
ENVIRONMENTAL AND SOCIAL REVIEW PROCEDURE	8
INTRODUCTION	8
PURPOSE AND NATURE OF ENVIRONMENTAL ASSESSMENT (EA)	8
SOCIAL REVIEW	8
IFC RESPONSIBILITY	8
EARLY REVIEW	9
PROJECT SCREENING.....	9
ENVIRONMENTAL AND SOCIAL INFORMATION REQUIREMENTS	10
PROJECT APPRAISAL	11
<i>Category A Projects</i>	12
<i>Category B Projects</i>	12
<i>Category C Projects</i>	12
<i>Category FI Projects</i>	12
<i>Expansions, Modernizations and Retrofits</i>	12
<i>Privatizations</i>	13
<i>Corporate Investment Programs</i>	13
<i>Financial Intermediary (FI) Operations</i>	13
PUBLIC CONSULTATION AND DISCLOSURE	13
<i>Public Consultation</i>	13
<i>Disclosure of Information</i>	14
ENVIRONMENTAL AND SOCIAL CLEARANCE MEMORANDUM	15
BOARD APPROVAL.....	15
INVESTMENT AGREEMENT	15
REVISION TO THE ENVIRONMENTAL ACTION PLAN AND ENVIRONMENTAL REVIEW SUMMARY	15
MONITORING AND SUPERVISION	16
EVALUATION	16
ANNEX A: EXCLUSION LIST.....	19
ANNEX B: PROJECT CATEGORIZATIONS AND EXAMPLES	20
<i>Category A Projects</i>	20
<i>Category B Projects</i>	20
<i>Category C Projects</i>	21
<i>Category FI Projects</i>	21

ANNEX C: TYPES OF ENVIRONMENTAL ASSESSMENT (EA)	22
<i>Environmental Impact Assessment (EIA)</i>	22
<i>Alternatives to an EIA</i>	23
<i>EA for Modernizations, Privatizations, Corporate Investment Programs and FI Lending</i>	23
ANNEX D: APPLICATION OF EA TO LARGE DAM AND RESERVOIR PROJECTS	25
ANNEX E: APPLICATION OF EA TO PROJECTS INVOLVING PEST MANAGEMENT	27
<i>Project EA</i>	27
<i>Pest Management Plan</i>	27
<i>Screening of Pest Control Products</i>	28
<i>Environmental Review</i>	28
<i>Supervision and Monitoring</i>	28
ANNEX F: PROCEDURES FOR FINANCIAL INTERMEDIARY (FI) PROJECTS.....	30
<i>Diversity of Financial Markets Operations</i>	30
<i>Definition of Subproject</i>	30
<i>Environmental and Social Requirements for Category FI Projects</i>	30
<i>Equipment Finance</i>	32
<i>Special Issues Associated with Funds</i>	32
<i>Monitoring and Supervision</i>	33
<i>Cofinancing with Other Multilateral Financial Institutions (MFI)</i>	33
GLOSSARY OF TERMS	38
GUIDANCE NOTE A: CHECKLIST OF POTENTIAL ISSUES FOR AN EIA	42
GUIDANCE NOTE B: CONTENT OF AN ENVIRONMENTAL IMPACT ASSESSMENT REPORT	44
GUIDANCE NOTE C: OUTLINE OF AN ENVIRONMENTAL ACTION PLAN (EAP)	46
GUIDANCE NOTE D: OUTLINE OF A PROJECT SPECIFIC ENVIRONMENTAL AUDIT	48
GUIDANCE NOTE E: OUTLINE OF A PROJECT SPECIFIC MAJOR HAZARD ASSESSMENT	49
GUIDANCE NOTE F: GUIDANCE FOR PREPARATION OF A PUBLIC CONSULTATION AND DISCLOSURE PLAN	50

INTRODUCTION

1. The International Finance Corporation (IFC) is a member of the World Bank Group, which also includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). IFC's business is investment in private sector projects through loans, equity investment, and other financial instruments. It is IFC policy that all its operations are carried out in an environmentally and socially responsible manner. To this end, IFC projects must comply with applicable IFC environmental, social and disclosure policies. In addition, IFC applies World Bank Group environmental, health and safety guidelines to all projects. In sectors where no appropriate IFC policies or guidelines exist, IFC applies relevant internationally recognized standards. Furthermore, the project sponsor must ensure compliance with host country requirements.

2. IFC's client base and project cycle are different from those of the World Bank. IFC's environmental and social policies, while harmonized with World Bank policies, are adapted to the private sector nature of IFC's business.

3. IFC reviews prospective projects for soundness before it invests, focusing on economic, financial, technical, legal, environmental and social issues during the project appraisal process. This environmental and social review procedure has been prepared for IFC staff and project sponsors for the review of a prospective project. A separate environmental procedure applies to small projects approved under delegated authority to management (e.g., Africa Enterprise Fund).

4. IFC's Environment Division is responsible for the environmental and social review, clearance and supervision of projects in a manner consistent with the requirements contained in this review procedure. The Environment Division is part of the Technical and Environment Department, whose Director reports to IFC's Executive Vice President. In addition, to achieve better integration of environmental and social considerations within IFC operations and to ensure high performance standards, an IFC Vice President has corporate oversight for environmental and social issues and disclosure matters.

5. This procedure: (a) discusses applicable environmental and social policies; (b) outlines applicable environmental and other guidelines; (c)

describes the project cycle which IFC uses in evaluating a prospective project and highlights where in the cycle IFC Environment Division staff are required to provide input; and (d) details the procedures that IFC staff must follow to ensure that projects meet IFC's commitment to environmentally sustainable and socially responsible projects. Additional procedural requirements are contained in a number of annexes (e.g., project categorization which then dictates the type of environmental assessment report, procedures for financial intermediary projects), while a number of guidance notes contain additional information to assist IFC staff and project sponsors (e.g., checklist of potential issues for an EIA, content of an environmental impact assessment for a Category A project). The requirements under this procedure will apply to all projects with an Investment Review Meeting on or after September 1, 1998. Copies of this procedure are available to the public on the World Wide Web at <http://www.ifc.org/enviro>.

POLICIES AND GUIDELINES

Policies

6. IFC environmental and social policies are fundamental to the project appraisal, approval and supervision process. Applicable operational policies are: OP 4.01, *Environmental Assessment*; OP 4.04, *Natural Habitats*; OP 4.09, *Pest Management*; OP 4.10, *Indigenous Peoples* (forthcoming); OP 4.11, *Safeguarding Cultural Property in IFC-Financed Projects* (forthcoming); OP 4.12, *Involuntary Resettlement* (forthcoming); OP 4.36, *Forestry*; OP 4.37, *Safety of Dams* (forthcoming); and OP 7.50, *Projects on International Waterways*. A brief summary of the important aspects of each policy is included in Table 1. The full text of each policy is available electronically to all IFC staff and at IFC's Information Resource Center. Copies are also available to the public on the World Wide Web at <http://www.ifc.org/enviro>.

Guidelines

Pollution Prevention and Abatement Handbook

7. The World Bank Group's *Pollution Prevention and Abatement Handbook* applies to all projects directly financed by IFC (see also Annex F). OP 4.01, *Environmental Assessment*, states that the *Pollution Prevention and Abatement Handbook* describes pollution prevention and abatement measures and emission levels that are normally acceptable to IFC. However, taking into account

country legislation and local conditions, the EA may recommend alternative emission levels and approaches to pollution prevention and abatement for the project. The EA report must provide full and detailed justification for the levels and approaches chosen for the particular project or site. References in this procedure to applying or meeting the guidelines incorporate the flexibility provided in OP 4.01.

8. The *Pollution Prevention and Abatement Handbook* is founded on the principles of sustainable development, cleaner production processes and pollution prevention. It contains three parts: Part I is a summary of key policy lessons in pollution management based on experience gained by the World Bank Group; Part II contains good practice notes on implementation of policy objectives; and Part III sets forth the detailed provisions to be taken into account by project sponsors in designing and operating projects. For a given industry sector, Part III contains the permissible emission levels that IFC expects the project sponsor to meet unless the environment assessment (EA) report justifies a variance from these levels, and the Vice President, Investment Operations in consultation with the Vice President with corporate responsibility for environmental issues, the Technical and Environment and Legal Departments agree with the recommended variance.

Occupational Health and Safety Guidelines

9. IFC applies provisions set forth in the World Bank Group's *Occupational Health and Safety Guidelines*, which cover those industries and pollutants most frequently encountered in IFC projects.

Reference Materials

10. IFC consults a number of other reference materials in reviewing projects. Some examples follow:

- a) *Techniques for Assessing Industrial Hazards: A Manual*. World Bank Technical Paper No. 55, 1988.
- b) *The Safe Disposal of Hazardous Wastes: Volumes I, II and III*, World Bank Technical Paper No. 93, 1989.
- c) *Environmental Considerations for Port and Harbor Developments*, World Bank Technical Paper No. 126, 1990.
- d) *Environmental Assessment Sourcebook, Volumes I, II and III*, World Bank Technical Paper No. 139, 1991.
- e) *Resettlement as Development: A World Bank Sourcebook for Good Practice*, World Bank (forthcoming).
- f) *Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual*, International Finance Corporation.

Exclusions

11. IFC does not finance project activities that would contravene country obligations under relevant international environmental treaties and agreements, as identified during the EA.

12. There are several types of manufacturing, trade activities and/or business ventures that IFC does not finance. A comprehensive exclusion list, together with explanatory notes, is attached in Annex A. The list applies to all IFC projects, with exceptions as noted in the Annex. A reasonableness test will be applied by IFC when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

Table 1: IFC's Environmental and Social Safeguard Policies

Policy	Description
OP 4.01, Environmental Assessment	IFC policy on environmental assessment (EA) states that all projects proposed for IFC financing require an EA to ensure that they are environmentally and socially sound and sustainable. EA is a process whose breadth, depth and type of assessment varies according to the type of project. Various instruments are used to perform the EA depending on the complexity of the project. They include: an environmental impact assessment (EIA), an environmental audit, a hazard or risk assessment, and an environmental action plan (EAP). The policy requires that all IFC projects be categorized. Categories are: 'A', 'B', 'C', and 'FI'. Definitions of each of these categories are described later in the procedure. OP 4.01 also sets forth the minimum requirements for public consultation and public disclosure for projects.
OP 4.04, Natural Habitats	This policy affirms IFC's commitment to promote and support natural habitat conservation and improved land use, and the protection, maintenance, and rehabilitation of natural habitats and their functions in its project financing. IFC does not support projects that involve significant conversion or degradation of critical natural habitats.
OP 4.09, Pest Management	IFC supports the use of biological or environmental control methods rather than the use of pesticides where there is a need for pest management. Where pesticides are required, this policy sets forth the criteria for their use.
OP 4.10, Indigenous Peoples [forthcoming]	Pending finalization of this OP, IFC projects must comply with the World Bank's OD 4.20, <i>Indigenous Peoples</i> , as appropriate in a private sector context.
OP 4.11, Safeguarding Cultural Property in IFC-Financed Projects [forthcoming]	Pending finalization of this OP, IFC projects must comply with the World Bank's OPN 11.03, <i>Cultural Property</i> , as appropriate in a private sector context.
OP 4.12, Involuntary Resettlement [forthcoming]	This policy is applied wherever land, housing or other resources are taken involuntarily from people. It sets out the objectives to be met and procedures to be followed for carrying out baseline studies, impact analyses, and mitigation plans when affected people must move or lose part or all of their livelihoods. An annex to OP 4.12 presents the outline for a Resettlement Plan, the key document to be prepared by the project sponsor.
OP 4.36, Forestry	IFC involvement in the forestry sector aims to reduce deforestation, enhance the environmental contribution of forested areas, promote afforestation, reduce poverty, and encourage economic development. IFC does not finance commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests. This policy is now under review.
OP 4.37, Safety of Dams [forthcoming]	This policy sets forth IFC's requirements for projects where dams are to be constructed. The owner of a dam has full responsibility for the safety of the dam. IFC requires that dams be designed and constructed by experienced and competent professionals. For large dams (over 15 meters high) and dams between 10 and 15 meters that present special design complexities, IFC requires reviews by a panel of independent experts, preparation of detailed plans, and periodic safety inspections. The policy covers mine tailings dams and dams containing other material such as ash from power plants, as well as water storage dams.
OP 7.50, Projects on International Waterways	This policy sets forth required agreements and notifications regarding projects that are situated on international waterways.

IFC'S PROJECT CYCLE

Introduction

13. Timing of IFC involvement in a project can vary significantly. IFC's initial involvement in a project normally occurs after a feasibility study has been completed (i.e., after site selection, preliminary design work, etc.). The length of the IFC project cycle depends upon the complexity of the project and the degree to which the project has been prepared by the project sponsor. From project identification to disbursement the project cycle can be as short as four to six months, but it also can be considerably longer for complex projects. Following are descriptions of the elements in the IFC project cycle. Figure 1 shows the sequence of events.

The Project Cycle

- **Project Identification and Assignment of Project Team:** the Investment Officer (IO) is responsible for project identification. Once the IO receives authorization from Investment Department management to proceed to the next phase, the IO requests assignment of a project team, including environmental and social specialists as appropriate.
- **Early Review/CIC:** the purpose of the Early Review is for IFC to give a quick decision to a project sponsor on whether the Corporation is interested in engaging in the project. As a basis for an early management decision the Investment Department prepares the Project Data Sheet Early Review (PDS-ER), which contains a project description, details of the potential investment, highlights any policy issues and potential dealbreakers, reviews IFC's role in the project and development impact.¹ If sufficient information is available at this stage, the Environment Division screens the project, assigns the project category and issues the Environmental and Social Information Memorandum (ESIM). The ESIM provides environmental and social language for the PDS-ER and the Monthly Operations Report (MOR). Note: the IO cannot alter this text. If there is

insufficient information to prepare an ESIM, the project team requests additional details from the sponsor. The project category (A, B, C or FI – see Annex B for project categorization and Annex C for types of environmental assessment instruments), rationale for categorization, and environmental and social issues and any policy concerns are briefly stated in the PDS-ER. Based on the information in the PDS-ER, IFC senior management assesses the appropriateness of the project as an investment for IFC and, if so, authorizes project appraisal.² If the proposal is approved for appraisal it is listed in the MOR, a confidential internal document distributed to the Board. The MOR serves as an early notice to the Board of projects under consideration. The MOR provides the environmental category of each project and an outline of the major environmental and social issues. It also provides a monthly update of projects in the project cycle, including any significant changes, until review by IFC's Board. If the PDS-ER is prepared prior to receipt of the ESIM, the MOR should be updated as necessary to incorporate final language on environmental and social issues.

- **Project Appraisal:** Appraisal is the stage in which IFC staff conduct a detailed evaluation of the project in terms of business potential and environmental, social and technical concerns, and review information provided by the project sponsor. The project team usually consists of an investment officer, a technical specialist, an economist, a lawyer, an insurance specialist, an environmental specialist, and, where appropriate, a social development specialist. During the appraisal process, more detailed environmental and social data are collected and analyzed for Category A, B, and FI projects. The PDS-ER is updated. If the Environment Division is satisfied that the project can comply with appropriate IFC environmental and social requirements, the Division sends an Environmental and Social Clearance Memorandum (ESCM) to the Investment Department.
- **Investment Review Meeting:** After completion of the appraisal and receipt of the ESCM, the Department Director holds an Investment Review Meeting to review the recommendations

¹ The draft PDS-ER should include a suggested Tier categorization for the project—see the Revised Operational Procedures for more information on Tiering. (Note: A project that is categorized by the Environment Division as Category A or a project with special issues is automatically a Tier III project.)

² Tier I projects are circulated to the Corporate Investment Committee (CIC) for information only; Tier II and Tier III projects are circulated to the CIC for clearance on a five day no-objection basis.

of the project team and the updated PDS-ER, and to discuss any outstanding issues.

- **Negotiations:** After a decision in the Investment Review Meeting to process the project, IFC negotiates with the project sponsor to establish the primary terms and conditions of IFC participation in the project, including environmental and social aspects, such as conditions of disbursement and covenants, performance and monitoring requirements, and resolution of any outstanding issues. Note: negotiations frequently continue over an extended period.
- **Board Approval:** IFC projects can be submitted to the Board using regular or streamlined procedures. The environmental and social due diligence process and the public disclosure requirements do not vary according to procedure; only the documentation submitted to the Board varies. All significant environmental and social issues must be satisfactorily addressed prior to submission of project documents to the Board.³

- *Regular Procedure:* Projects with serious or contentious environmental and/or social issues or potentially significant risks must proceed by the regular procedure. The Board Report describes the project concept, project sponsors and management, the market, the cost and financial structure, the IFC investment, the IFC role and development impact, and environmental and social issues along with mitigating measures, outstanding issues, and other appropriate details. IFC staff make a formal presentation on the project at a Board meeting. Executive Directors have an opportunity to ask questions about the project. Upon conclusion of the Board discussion, approval to proceed with the project is sought.

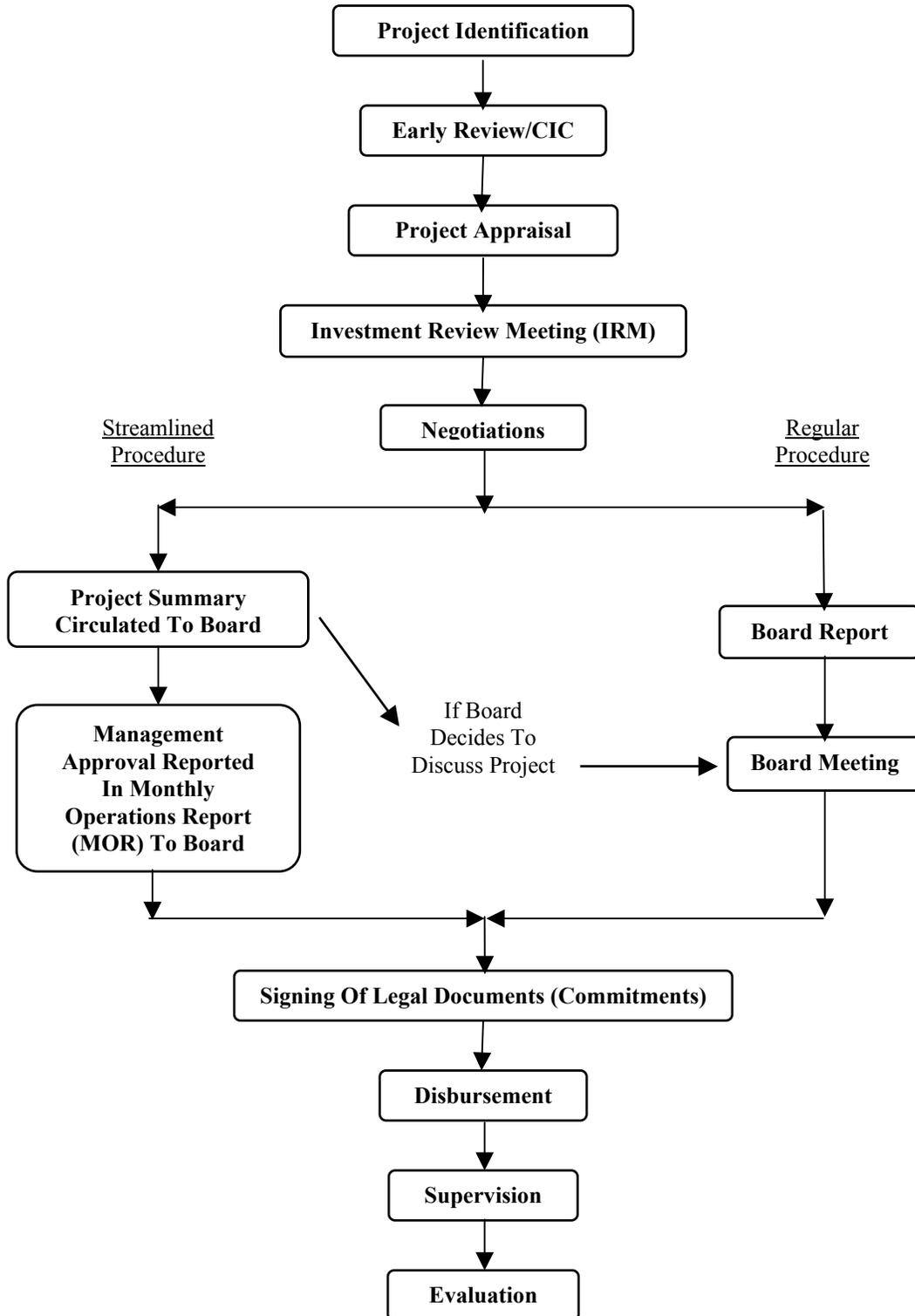
- *Streamlined Procedure:* The streamlined procedure provides the Board with a written Project Summary of the key features and issues of a proposed project, with a view to permitting the Board to determine if there are issues in the project which lead a Board

member to call for a full Board discussion. The project summary includes information on environmental and social issues, which contains the same level of detail on environmental and social issues as a regular procedure Board Report. The significant difference between streamlined and regular procedure is that the streamlined procedure allows for approval of a project without requiring a formal meeting of the Board of Directors. Any member of the Board has the right to request full discussion of any project submitted under streamlined procedure. In the absence of such a request, the Board delegates approval authority for streamlined procedure projects to management, with management approval reported in the Monthly Operations Report (MOR).

- **Signing of Legal Agreements (Commitment):** Signing constitutes the formal acceptance by the project company, IFC, and other parties (if any) of the terms and conditions under which IFC will finance the project.
- **Disbursement:** Disbursement occurs on the terms and conditions contained in the legal documentation.
- **Supervision:** IFC monitors the performance of all active projects in its portfolio to ensure compliance with environmental, social and other conditions. The project company provides annual environmental monitoring reports to IFC no later than 90 days after the end of each of its fiscal years. In addition Project Supervision Reports (PSRs), which IFC prepares at least annually, include a section on environmental and social compliance. In the case of non-compliance, an appropriate course of action is determined by IFC, and the project company is notified as to required follow-up actions.
- **Evaluation:** In project evaluations, environmental and social performance is fully taken into account as an important element in the performance of IFC, the company and the project. Investment Assessment Reports (IARs) summarize evaluations of the actual environmental and social impacts of the project against the impacts anticipated in the environmental assessment and review. They also describe the effectiveness of the mitigation measures.

³ IFC's Board of Directors has delegated authority to management to approve certain small projects, e.g. under the Africa Enterprise Fund (AEF) and the Small Enterprise Fund (SEF).

Figure 1: IFC's Project Cycle



ENVIRONMENTAL AND SOCIAL REVIEW PROCEDURE

Introduction

14. IFC's environmental and social review procedure outlines the process by which IFC determines the adequacy of the project sponsor's environmental assessment for a proposed project and works with the project sponsor to address environmental and social issues and opportunities associated with the project. The purpose of the environmental and social review is to ensure that the project complies with applicable IFC environmental and social policies and meets the applicable guidelines. In sectors where no appropriate IFC policies or guidelines exist, IFC applies internationally recognized standards. The project sponsor must ensure compliance with host country requirements. The following sections describe who has responsibility for the various steps in the review process and then details each of the steps. Figure 2 (p. 17 of 51) depicts the steps in the process.

Purpose and Nature of Environmental Assessment (EA)

15. The purpose of an environmental assessment (EA) is to improve decision making and to ensure that the project under consideration is environmentally and socially sound and sustainable. Environmental and social consequences should be recognized early in the project cycle and taken into account in project selection, siting, planning, and design. EA identifies ways of improving a project environmentally and socially and (in order of priority) preventing, minimizing, mitigating, or compensating for adverse impacts as appropriate for individual projects. These steps help avoid costly remedial measures. By calling attention to environmental and social issues early and by involving stakeholders in meaningful consultations, EA (a) allows a project sponsor and IFC staff to address these issues in a timely and cost-effective fashion; (b) reduces the need for project conditionality because appropriate steps can be taken in advance or incorporated into project design, or alternatives to the proposed project can be considered; and (c) helps avoid costs and delays in implementation due to unanticipated problems. EA can provide a mechanism for coordination between the project sponsor and relevant government agencies on environmental and social issues and for addressing the concerns of affected groups and local

interested parties. In addition, EA plays an important role in building the environmental and social management capability of the project sponsor.

16. EA is the responsibility of the project sponsor. Early start of the EA process and close integration of EA with other aspects of project preparation and early start of the EA process ensure that (a) environmental and social considerations are given adequate weight in project selection, siting, and design decisions; and (b) the review process does not delay project processing.

Social Review

17. The general requirement to address social issues during the EA process is contained in OP 4.01, *Environmental Assessment*. Specific policy requirements are contained in OP 4.10, *Indigenous Peoples* (forthcoming); OP 4.11, *Safeguarding Cultural Property in IFC-Financed Projects* (forthcoming); and OP 4.12, *Involuntary Resettlement* (forthcoming). Where projects have the potential to result in significant and diverse social impacts, IFC will collect information on the potential social impacts of the proposed project and consider these issues as part of its project appraisal process. In some situations, however, the magnitude and complexity of social issues go beyond the scope or responsibility of the private sector and fall within the domain of government. IFC recognizes the importance and sensitivity of the project sponsor-government relationship in addressing such issues. Given the variations among countries, sectors, and individual projects, the interface between the private and public sectors on these issues is best addressed on a case-by-case basis.

IFC Responsibility

18. Environmental and social review involves a broad range of environmental, social, technical, commercial and legal issues and requires input from various members of the project team. The Investment Department has line responsibility for overall performance of a project, including its environmental and social performance. Environmental and social development specialists and technical specialists in the Technical and Environment Department provide specialized support on environmental and social matters to the project team and project sponsor.

19. The Environment Division is responsible for the environmental and social review of projects, including formal clearance of projects from an environmental and social standpoint. The Environment Division, utilizing its best professional

judgment, assesses whether each project will comply with applicable policies and meet the applicable guidelines, coordinates with the World Bank as necessary, and makes the Investment Department aware of any issues that are not in conformity with these requirements. The formal clearance from the Environment Division states that, based on the information reviewed, the project, if implemented as designed and operated accordingly, will comply with applicable IFC policies and meet the applicable guidelines. The formal clearance does not certify the project's performance against host country requirements. The technical specialist provides support to the Investment Departments, the Environment Division and the project sponsor on technical matters, including technical aspects of environmental performance, as appropriate. The lawyer provides support on legal matters, including drafting the environmental and social provisions in the project's legal documentation.

20. The Investment Department Director is responsible for the decision to proceed with a project, based on the results of the appraisal, provided that environmental and social clearance has been received from the Environment Division. Where environmental and social issues are outstanding after appraisal, the Vice President, Investment Operations in consultation with the Vice President with corporate responsibility for environmental issues, the Technical and Environment, Legal and Investment Departments, determine whether or not these issues have been addressed sufficiently that the project should be approved.

Early Review

21. At the earliest possible stage, the Investment Department requests the Environment Division to allocate specialists to a proposed project. It is beneficial to the project sponsor and IFC for the Environment Division to provide guidance on environmental and social requirements at the earliest possible opportunity. A project sponsor can request such guidance in advance of an investment mandate and IFC may provide such guidance under properly established terms and conditions. As soon as the Investment Department decides that a project will proceed, the investment officer and technical specialist provide the PDS-ER and any other relevant information to the Environment Division and request in writing initial project screening and preparation of the Environmental and Social Information Memorandum (ESIM). The Environment Division also completes the appropriate sections of the PDS-ER. These sections may undergo significant revisions

if preliminary information is scant, and the Environment Division may change the category as new information is received. Investment Officers should encourage project sponsors to contact the assigned environmental and social specialists early in the process to discuss issues of concern. Note: staff of the Environment Division use the Environmental and Social Questionnaire (ESQ) to source information from the project sponsor as early as possible in the process and use this collected information in classifying the project and identifying environmental and social issues of concern.

Project Screening

22. The purpose of project screening is to decide on the nature and extent of the environmental assessment needed for the project. Projects are categorized by the Environment Division into environmental review category A, B, C, or FI in accordance with IFC's OP 4.01, *Environmental Assessment*. The classification of a project depends on the type, location,⁴ sensitivity,⁵ and scale of the project,⁶ as well as the nature and magnitude of its potential impacts. IFC uses four categories for its projects. They are defined as follows:

- **Category A:** A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive,⁷ diverse, or unprecedented. These projects may affect an area broader than the sites or facilities subject to physical works. EA for a Category A project examines the project's potential positive and negative impacts, compares them with those of feasible alternatives (including the "without project" scenario), and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and to improve performance. For a Category A project, the project sponsor is responsible for preparing a full report, normally an Environmental Impact Assessment

⁴ "Location" refers to proximity to or encroachment on environmentally sensitive areas, such as mangroves, wetlands, and rain forests.

⁵ "Sensitivity" is defined in footnote 7.

⁶ "Scale" needs to be judged by the environmental and social specialist in the project context; if large, the project is more likely to be a Category A project.

⁷ A potential impact is considered "sensitive" if it may be irreversible (e.g., lead to loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.

(EIA) and for preparing and updating an Environmental Action Plan (EAP).

- **Category B:** A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas – including wetlands, forests, grasslands, and other natural habitats – are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigation measures can be designed more readily than for Category A projects. The scope of EA for a Category B project may vary from project to project, but it is narrower than that of EA for a Category A project. Like Category A EA, it examines the project's potential positive and negative impacts and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance. The project sponsor is responsible for providing the required environmental and social information. The findings and results of Category B EA are described in the project documentation (i.e. Environmental Review Summary).⁸
- **Category C:** A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impacts. Beyond

screening, no further EA action is required for a Category C project.

- **Category FI:** A proposed project is classified as Category FI if it involves investment of IFC funds through a financial intermediary in subprojects that may result in adverse environmental impacts. In addition, in some financial markets projects IFC funds are not targeted to specific subprojects (e.g. equity in a financial institution such as a commercial bank), but the financial institution has operations which may have adverse environmental impacts (e.g. project finance). In such cases IFC may also classify the project as Category FI. If subprojects potentially result in minimal or no adverse environmental impacts, the project is characterized as C.

23. Annex B contains additional procedural requirements on project categorization, while Annex C further specifies the appropriate Environmental Assessment (EA) tools. Annexes D and E contain procedural requirements related to EA for large dams and reservoirs and EA for projects involving pest management, respectively. Due to the variety of FI projects encountered and the complexity of many of these projects, detailed procedural requirements for categorizing FI projects and assessing their requirements are set forth in Annex F. Contents of a resettlement plan are specified in Annex A to OP 4.12, *Involuntary Resettlement*. A Glossary of Terms is presented at the end of the Annexes.

24. A number of Guidance Notes are provided to assist IFC staff and project sponsors during the EA process. Guidance Note A provides a checklist that can be used to identify potential issues during preparation of an EIA. Guidance Notes B, C and D provide outlines of an EIA for a Category A project, an Environmental Action Plan (EAP), and an environmental audit, respectively. Guidance Note E provides an outline of a project specific major hazard assessment. Finally, Guidance Note F contains best practice guidance for preparation of a Public Consultation and Disclosure Plan (PCDP). The requirements for a Resettlement Plan are contained in an Annex in OP 4.12, *Involuntary Resettlement*.

Environmental and Social Information Requirements

25. Upon receipt of the PDS, the Environment Division issues an ESIM to the investment officer (and to the technical specialist), documenting the following:

⁸ When the screening process determines, or national legislation requires, that any of the environmental and social issues identified warrant special attention, the findings and results of EA for Category B projects may be set out in a separate report. Depending on the type of project and the nature and magnitude of the impacts, this report may include, for example, a limited environmental impact assessment, an environmental mitigation or action plan, an environmental audit, a limited resettlement plan, a limited indigenous peoples action plan, or a hazard assessment. For Category B projects that are not in environmentally sensitive areas and that present well-defined and well-understood issues of narrow scope, IFC may accept alternative approaches for meeting EA requirements: for example, environmentally sound design criteria, siting criteria, and pollution standards, acceptable to IFC, for small and medium-scale industrial plants; environmentally sound design criteria, siting criteria, and construction standards, acceptable to IFC, for small and medium-scale agribusiness and agricultural projects; and specific environmental and social siting and design criteria, construction standards, fire and life safety requirements, and inspection procedures, acceptable to IFC, for tourism projects.

- the category of the project and the rationale for the categorization;
- the major environmental and social concerns that have been identified or may be associated with the project;
- the draft of the environmental language for the PDS and the MOR;
- the details of the environmental and social information required from the project sponsor to enable the Environment Division to complete the review process;
- typical standards for a project of this type (e.g., IFC's environmental and social policies, applicable guidelines, host country requirements and/or internationally recognized standards) which will be applied in reviewing the project; and
- for a Category A project (and category B projects where there are small scale resettlement and/or pest management issues), a general outline of the project's public consultation and disclosure plan for inclusion in the PDS as well as details of the requirement for the project sponsor to prepare a detailed Public Consultation and Disclosure Plan (PCDP) for the project. The project sponsor is responsible for preparing the PCDP, with guidance provided by the Environment Division. A preliminary PCDP must be submitted to the Environment Division for review and approval as soon as possible and in advance of the appraisal mission. On approval of the PCDP by the Environment Division, the Investment Department submits the PCDP to the Investment Policy Committee for their review and approval. During project appraisal the PCDP is periodically updated and any significant changes, after Environment Division approval, are brought to the attention of the Investment Policy Committee by the Investment Department.

26. The Environment Division must have sufficient information on the environmental and social aspects of a project to allow for proper project screening and preparation of the ESIM. In most cases, an Environmental and Social Questionnaire (ESQ) will be sent to sponsors for completion and return. The ESQ provides information to allow environmental and social specialists to undertake a basic evaluation of the sponsor's environmental capabilities and to

assist in defining a detailed scope of work for the appraisal stage. If insufficient information is available, or if during the project appraisal significant additional issues are identified, the Environment Division may re-evaluate the category of the project as well as the relevant information requirements. Investment Officers should encourage project sponsors to contact the assigned environmental and social specialists early in the process to discuss issues of concern.

27. Following authorization for appraisal, the investment officer sends environmental and social requirements (provided in the ESIM) to the Controller's and Budgeting Department for inclusion in the MOR. This information includes the project category, the rationale for the categorization, and a summary of the environmental and social issues associated with the project. Information is thereby provided to IFC's Board of Directors on relevant issues as early as possible in the IFC project cycle.

Project Appraisal

28. Early project screening and identification of environmental and social information requirements ensure that the project sponsor can provide the information in a timely and cost-effective manner and that these issues can be addressed during the project appraisal process without delaying the project processing cycle. Upon receipt of the ESIM, the investment officer, in consultation with the technical, environmental, and social development specialists, as appropriate, communicates in writing the relevant information requirements and the general requirements of this procedure to the project sponsor. This includes the requirement for public release of environmental information (including information related to the public consultation process). Copies of IFC's applicable policies, guidelines and guidance documents such as *Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual* are also sent to the project sponsor.

29. It is the project sponsor's responsibility to prepare and submit the necessary environmental information to IFC for review during project appraisal. The Environment Division, in coordination with the investment officer, can provide guidance to the project sponsor to ensure that this activity is completed in a responsive manner. The length of time required for the environmental and social review depends on the completeness of the information provided by the project sponsor, the overall

complexity of the project, and potential impacts on the physical, biological and human environment.

30. In exceptional circumstances where a Category A project is highly risky or contentious, or involves serious and multidimensional environmental and social concerns, IFC normally requires the project sponsor to engage an advisory panel of independent, internationally recognized environmental specialists to advise on all aspects of the project relevant to the EA, including during project implementation.

31. Review of environmental and social information provided by the project sponsor normally occurs during project appraisal, although it may occur earlier in IFC's project cycle if the information is available. During the review, data gaps or other deficiencies in the project sponsor's environmental assessment may be identified. In addition, questions or concerns about the environmental and social information may arise. In these cases, the environmental specialist and social development specialist, where appropriate and in consultation with the investment officer, contacts the project sponsor to seek clarification or additional information.

32. During the environmental and social review, IFC works with the project sponsor to enhance project benefits or correct any deficiencies. The review of a project is an interactive process requiring communication between the Investment Department, the Technical and Environment Department, the Legal Department, and the project sponsor. Specific activities associated with the review process depend on the category of the project as follows:

Category A Projects

- Visit to the project site by one or more Environment Division staff or an IFC selected consultant to gain first hand knowledge of the project and to meet with the project sponsor and representatives of affected groups to discuss environmental and social concerns and information needs, to explain public consultation and disclosure requirements, and to determine the issues which must be addressed in the EA.
- Desk review by IFC of the EA report provided by the project sponsor and other relevant information provided by the project team.

Category B Projects

- Desk review by IFC of environmental and social information provided by the project sponsor and the project team. A site visit may be required by a member of the Environment Division or an IFC consultant depending on the complexity of the project.

Category C Projects

- No further environmental review required.

Category FI Projects

- Verification that the financial intermediary will be capable of and committed to meeting IFC requirements. See Annex F for procedures for FI projects.

Expansions, Modernizations and Retrofits

33. In plant expansion and modernization projects, the entire plant (existing and proposed new facilities) undergoes an evaluation of environmental and social issues. Any new facilities or investments financed by IFC must conform to applicable IFC policies and meet applicable guidelines. In addition, IFC usually requires the project sponsor to retain an independent consultant to complete an environmental audit of the existing plant and may require the project sponsor to undertake programs to bring the existing plant into compliance with applicable IFC policies and meet applicable guidelines within a reasonable time frame (see Annex C for more details).

Privatizations

34. For privatization projects, IFC usually requires the project sponsor to retain an independent consultant to complete an environmental audit of the facilities. Depending on the results of the audit, IFC makes recommendations and may require the project sponsor to agree on programs to bring the facilities into compliance with applicable IFC policies and meet applicable guidelines within a reasonable time frame. If new facilities are also involved, the new facilities financed by IFC must comply with applicable IFC policies and meet applicable guidelines (see Annex C for more details). Where privatization is expected to result in significant social and economic impacts due to loss of direct and indirect employment and/or impacts on the provision of basic social services, IFC may require the collection of information on the social impacts of the privatization. These issues will be considered during appraisal of the project, in accordance with the principles set forth in para 17 above (Social Review).

Corporate Investment Programs

35. For investments in general corporate activities, the overall environmental and social performance of the project sponsor is assessed, and, if necessary, recommendations made to strengthen and improve the corporate environmental management system. In this regard, IFC may require the project sponsor to complete an environmental audit by an independent consultant and to discuss and agree with IFC on programs to achieve, within a reasonable time frame, compliance with applicable IFC policies and meet applicable guidelines (see Annex C for more details).

Financial Intermediary (FI) Operations

36. Financial intermediary operations involve a broad range of financial institutions and financial products. The requirements for a particular project depend on the kind of financial institution and financial products involved. Requirements are set forth in three “types” as outlined in Annex F, which provides detailed information about how the requirements are applied to various types of Category FI projects. When IFC funds are not directly targeted to specific subprojects but support a financial institution whose investments may have adverse environmental impacts, IFC focuses on the process of environmental management in the institution. When IFC funds are targeted to specific subprojects through the financial institution, IFC focuses on both the process and the subprojects.

Public Consultation and Disclosure

Public Consultation

37. During the EA process for Category A projects and for Category B projects where there are special issues of concern, such as small scale resettlement or pest management issues, the project sponsor is required to conduct meaningful consultation with relevant stakeholders including affected groups, nongovernmental organizations (NGOs) and local authorities about the project's environmental and social aspects and take their views into account. The project sponsor initiates such consultations as early as possible. For meaningful consultations, the project sponsor provides relevant information in a timely manner and in a form and language that are understandable and accessible to the groups being consulted. For Category A projects, these actions, and future consultations to be undertaken during the construction and operation of the project, are incorporated into a public consultation and disclosure plan (PCDP) (see Guidance Note F). All project sponsors should consult IFC's *Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual*. This Manual provides guidance on effective public consultation and disclosure for the private sector.

38. For **Category A projects**, the project sponsor consults relevant stakeholders at least twice: (a) during scoping and before the terms of reference for the EA are finalized, and (b) once a draft EA report is prepared. For the initial consultation, the project sponsor provides a summary of the proposed project's objectives, description, and potential impacts; for consultation after the draft EA report is prepared, the project sponsor provides a non-technical summary of the report's findings. In both cases, the summaries should be provided in advance of consultation and proactively disseminated to local stakeholders in a form and language meaningful to those being consulted.

39. Following the public consultation on the draft EA, the project sponsor supplements the EA by adding details of the public consultation process, as necessary, including the project sponsor's responses to concerns raised by the various stakeholders and details of measures taken to incorporate these concerns into project design and implementation.

40. The project sponsor continues to consult with relevant stakeholders throughout project construction and operation, as necessary, to address EA related and other issues that affect them. IFC requires the

project sponsor to report on ongoing consultation as part of its annual reporting requirements.

41. In those cases where the EA has been completed prior to IFC involvement in the project, the Environment Division reviews the public consultation and disclosure activities carried out by the project sponsor during and after EA preparation. If necessary the Environment Division and project sponsor then agree on a supplemental public consultation and disclosure plan (PCDP) to address any identified deficiencies. The supplemental PCDP must be submitted to the Environment Division for review and approval as soon as possible and in advance of the appraisal mission. On completion of this program, the project sponsor prepares a report detailing the additional work undertaken and the results achieved. The EA will only be considered complete and made available to the World Bank InfoShop once the report on additional work is complete.

42. For **Category B projects** IFC may determine that there are special issues of concern, such as small-scale resettlement or pest management issues, that require the project sponsor to consult early in the project cycle with potentially affected stakeholders.

Disclosure of Information

43. For **Category A projects** the project sponsor gives public notification and makes the draft EA report available at a public place readily accessible to project stakeholders as early as possible and no later than 60 days prior to Board consideration (regular procedure), Closing Date (streamlined procedure), or management approval date (delegated authority). This document should include all supplements and addenda to the EA report requested by IFC and the responses to the public consultation process. In addition, a non-technical EA report summary in the local language shall be proactively disseminated to local stakeholders. With the project sponsor's consent, IFC releases the EA report to the public through the World Bank InfoShop as early as possible and no later than 60 days prior to Board consideration (regular procedure), Closing Date (streamlined procedure), or management approval date (delegated authority). The 60 day period commences only when IFC determines that all relevant information requested from the project sponsor has been provided to IFC and placed in the World Bank InfoShop. Such release does not constitute IFC endorsement of the project. If the project sponsor objects to IFC releasing this information through the World Bank InfoShop, IFC

staff do not continue work on the project. Once the project sponsor officially provides an EA report to IFC, IFC distributes the summary (in English) to the members of IFC's Board of Directors. In addition, IFC may require disclosure of addenda which document significant consultation post-EA report release, but this would not re-start the 60 day period. For FI operations involving investment of IFC funds directly in specific subprojects, the FI ensures that EA reports for Category A subprojects are made available in a public place readily accessible to affected groups and local NGOs.

44. For **Category B projects**, on completion of IFC's review of the project sponsor's environmental analysis, the Environment Division prepares an Environmental Review Summary (ERS) which contains a project description, the rationale for the project categorization, the list of key environmental, social, health and safety issues, details of the mitigation measures to bring the project into compliance with IFC's requirements, an outline of any outstanding issues and information on the project's monitoring and reporting program to ensure compliance. After endorsement by the project sponsor, the Investment Department releases this ERS as well as the results of any consultations required by IFC for Category B projects with special issues (see paragraph 42), to the World Bank InfoShop no later than 30 days prior to Board consideration (regular procedure) or Closing Date (streamlined procedure). If the project sponsor objects to IFC's releasing the ERS or consultation results through the World Bank InfoShop, IFC staff do not continue work on the project. Since project affected people may not have reasonable access to a World Bank or IFC office, the sponsor is also required to release locally the ERS (as amended by IFC if necessary), and the results of any consultations required by IFC, translated into the local language, in a culturally appropriate manner, to facilitate awareness by relevant stakeholders that the information is in the public domain for review. This local release should occur no later than 30 days prior to Board consideration (regular procedure) or Closing Date (streamlined procedure). For example, if a Category B project requires preparation of a limited resettlement plan, this plan must be prepared in accordance with the requirements of OP 4.12, *Involuntary Resettlement* (forthcoming), including local consultation and disclosure. In addition, IFC releases the resettlement plan to the World Bank InfoShop and the project sponsor releases it locally no later than 30 days prior to Board consideration. IFC's Vice President, Investment Operations may, in

rare and compelling circumstances, issue a waiver in writing of the 30 day period.

45. After completion of the appraisal, the Department Director holds an Investment Review Meeting (IRM) to review the recommendations of the project team and the updated PDS-ER, and to discuss outstanding issues. The Investment Department management prepares a Summary of Project Information (SPI). The SPI provides a brief factual summary of the main elements of the evolving project for disclosure to the public through the World Bank InfoShop. After the project sponsor's approval of the SPI, the Investment Department transmits it to the World Bank InfoShop a minimum of 30 days prior to Board consideration (regular procedure) or Closing Date (streamlined procedure) as described in detail in IFC's Disclosure Policy. IFC's Vice President, Investment Operations may, for compelling business reasons, issue a waiver in writing of the 30 day period. The Environment Division prepares the section of the SPI entitled "Environmental Category and Issues." It describes the environmental category for the project, provides a brief summary of any environmental and social issues, and sets out the mitigation measures designed to address those issues.

Environmental and Social Clearance Memorandum

46. Prior to of the Investment Review Meeting for the project and upon satisfaction that the project can comply with the applicable IFC policies and meet the applicable guidelines, the Environment Division issues the Environmental and Social Clearance Memorandum (ESCM) to the Investment Department. The ESCM clears the project for Board consideration and details outstanding issues as well as the actions required to address those issues. Project monitoring and reporting requirements are also identified, as are other obligations of the project sponsor. The Investment Officer conveys these requirements to the project sponsor. The Environment Division also prepares a summary of the findings of the environmental and social review for inclusion in the Decision Memorandum and for the ERS.

Board Approval

47. After management approves the project at the Investment Review Meeting, the Environment Division prepares an outline of the findings of the environmental and social review for inclusion in the report to the Board, including the project category, major environmental and social issues and mitigation measures, other appropriate details, and a statement regarding compliance of the project with relevant requirements.

Investment Agreement

48. After project approval, the investment officer, in consultation with the lawyer and environmental and social development specialists, ensures that environmental and social requirements are reflected in the IFC legal documentation for the project. The investment agreement contains covenants which require the project company to comply with IFC and host country requirements. Annexes to the investment agreement include applicable IFC policies and guidelines, as appropriate. In addition, the investment agreement stipulates that the project company must, no later than 90 days after the end of the company's fiscal year, submit annual environmental monitoring and performance reports to IFC, in a format agreed by IFC. For Category A projects, the investment agreement requires the project company to comply with the requirements described in the agreed Environmental Action Plan (EAP). IFC also requires that the annual environmental monitoring and performance reports for Category A projects be completed or verified for completeness and accuracy by an independent consultant acceptable to IFC.

Revision to the Environmental Action Plan and Environmental Review Summary

49. For Category A projects, the Environmental Action Plan (EAP) (see Guidance Note C for a detailed outline of an EAP) is an essential and critical part of the EA report and must be included as a part of the draft EA report that is released locally for public consultation. After release of the EA report to the World Bank InfoShop, the project sponsor updates the EAP to reflect the final understandings on environmental and social issues with IFC. After approval of the final EAP by the Environment Division, the Investment Department releases the EAP to the World Bank InfoShop and the project sponsor releases it locally in a culturally appropriate manner. For Category B projects, the Environment Division if necessary updates the ERS to reflect the

final understandings between the project sponsor and IFC on environmental and social issues. After the final ERS is endorsed by the project sponsor, the Investment Department releases the ERS to the World Bank InfoShop and the project sponsor releases it locally in a culturally appropriate manner (see paragraph 44). If the project sponsor objects to IFC releasing the EAP, the updated EAP, or the updated ERS, IFC staff do not continue to work on the project.

Monitoring and Supervision⁹

50. IFC monitors the environmental and social performance of projects in its investment portfolio. Project monitoring usually occurs in one or more of the following ways:

- a) Review of annual monitoring reports prepared by the project company (in a format agreed by IFC);
- b) Supervision missions carried out by the Investment Department and the Technical and Environment Department; and/or
- c) Project site visits by staff of the Environment Division. The frequency of the site visits depend on the environmental and social complexity of a project.

51. The investment officer, in cooperation with the technical specialist and after consultation with the environmental and social development specialists, is responsible for ensuring that supervision reports include information on the project company's compliance with environmental and social requirements. The investment officer is also responsible for ensuring that annual environmental monitoring reports are provided to the Environment Division as required in the legal documentation for the project. The Environment Division is responsible for reviewing such reports and determining whether the project company's compliance with environmental and social requirements is satisfactory. In the case of non-compliance, the Environment Division discusses an appropriate course of action with the Investment and Legal Departments and specialists in the Technical and Environment Department. The investment officer notifies the project company of this action and any necessary follow-up requirements. The investment officer is

responsible for follow-up with both the project company and the Environment Division until the non-compliance situation is resolved.

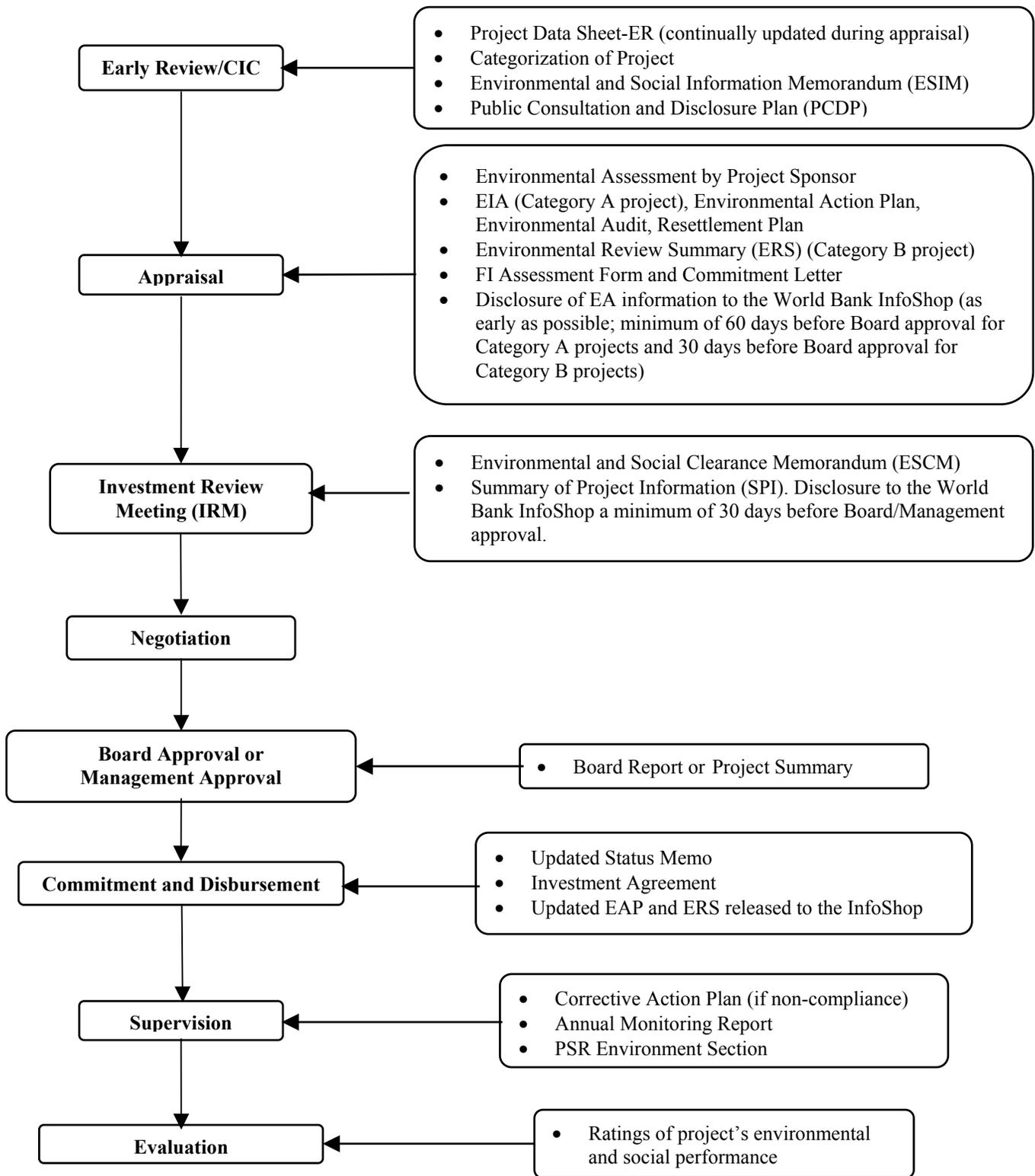
52. Project Supervision Reports (PSRs), which IFC prepares at least annually, must include a section on environmental and social compliance with regard to covenants in the investment agreement. In addition, the PSR must state whether the Environment Division has received the Annual Monitoring Report (as required in the investment agreement), the date submitted to IFC and the date reviewed by the Environment Division.

Evaluation

53. During the course of selected projects an Investment Assessment Report (IAR) is prepared which summarizes the evaluations of the actual environmental and social impacts of the project against the impacts anticipated in the EA report, and assesses the effectiveness of the mitigating measures. The Environment Division provides input to the IARs and signs off on the relevant draft text and attendant project performance ratings.

⁹ IFC uses the term "supervision" differently from the Bank, due to differences in project cycles of the two institutions. Accordingly, the Bank's OD 13.05 Project Supervision does not apply to IFC.

Figure 2: Environmental Review Steps



ANNEXES

Annex A - Exclusion List

Annex B - Project Categorizations and Examples

Annex C - Types of Environmental Assessment (EA)

Annex D - Application of EA to Large Dam and Reservoir Projects

Annex E - Application of EA to Projects Involving Pest Management

Annex F - Procedures for Financial Intermediary (FI) Projects

Annex A: Exclusion List

1. IFC does not finance the following projects:

- Production or activities involving harmful or exploitative forms of forced labor¹/harmful child labor².
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- Production or trade in weapons and munitions.³
- Production or trade in alcoholic beverages (excluding beer and wine).³
- Production or trade in tobacco.³
- Gambling, casinos and equivalent enterprises.³
- Trade in wildlife or wildlife products regulated under CITES.⁴
- Production or trade in radioactive materials.⁵
- Production or trade in or use of unbonded asbestos fibers.⁶
- Commercial logging operations or the purchase of logging equipment for use in

primary tropical moist forest (prohibited by the Forestry policy).⁷

- Production or trade in products containing PCBs.⁸
- Production or trade in pharmaceuticals subject to international phase outs or bans.⁹
- Production or trade in pesticides/herbicides subject to international phase outs or bans.¹⁰
- Production or trade in ozone depleting substances subject to international phase out.¹¹
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

¹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

² Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

³ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

⁴ CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. A list of CITES listed species is available from the Environment Division.

⁵ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.

⁶ This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

⁷ See IFC OP 4.36, *Forestry*.

⁸ PCBs: Polychlorinated biphenyls—a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

⁹ A list of pharmaceutical products subject to phase outs or bans is available from the Environment Division.

¹⁰ A list of pesticides and herbicides subject to phase outs or bans is available from the Environment Division.

¹¹ Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the Environment Division.

Annex B: Project Categorizations and Examples

Category A Projects

1. A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive,¹ diverse or unprecedented. These projects may affect an area broader than the sites or facilities subject to physical works. Environmental Assessment (EA) for a Category A project examines the project's potential positive and negative impacts, compares them with those of feasible alternatives (including the "without project" scenario), and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve performance. A full environmental assessment is required which is normally an Environmental Impact Assessment (EIA). Although decisions on categorization are made on a case-by-case basis, examples of Category A projects are:

- Large dams and reservoirs
- Forestry (large scale)
- Agro-industries (large scale)
- Industrial plants (large-scale)
- Major new industrial estates
- Major oil and gas developments, including major pipelines
- Large ferrous and non-ferrous metal operations
- Large port and harbor developments
- Projects with large resettlement components and all projects with potentially major impacts on human populations
- Projects affecting indigenous or tribal populations
- Large thermal and hydropower development
- Projects that include the manufacture, use or disposal of environmentally significant quantities of pest control products

- Manufacture, transportation, and use of hazardous and/or toxic materials
- Domestic and hazardous waste disposal operations
- Projects which pose serious occupational or health risks
- Projects which pose serious socioeconomic concerns.

Category B Projects

2. A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas - including wetlands, forests, grasslands, and other natural habitats - are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigatory measures can be designed more readily than for Category A projects. The scope of EA for a Category B project may vary from project to project, but it is narrower than that of an EA for Category A projects. Like Category A EA, it examines the project's potential positive and negative impacts and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance. A wide range of environmental guidelines have been developed by local or country authorities, as well as by a number of organizations, including the World Bank Group (e.g., *Pollution Prevention and Abatement Handbook*, *Occupational Health and Safety Guidelines*). In addition, specific environmental design criteria can be developed for individual projects. Examples of Category B projects are:

- Agro-industries (small scale)
- Electrical transmission
- Aquaculture and mariculture
- Renewable energy (except large hydro-electric power projects)
- Tourism (including hotel projects)
- Rural water supply and sanitation
- Rehabilitation, maintenance, and modernization projects (small scale)
- Manufacture of construction materials
- General manufacturing
- Textile plants

¹ A potential impact is considered "sensitive" if it may be irreversible (e.g., lead to loss of a major natural habitat), affect vulnerable groups of ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.

- Telecommunications
- Greenfield projects in existing industrial estates.

Category C Projects

3. A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Category C project. Examples of Category C projects are:

- Advisory assignments
- Factoring companies
- Life insurance companies
- Mortgage securitization
- Securities underwriters and broker/dealers
- Technical assistance
- Rights issues

Category FI Projects

4. A proposed project is classified as Category FI if it involves investment of IFC funds through a financial intermediary in subprojects that may result in adverse environmental impacts. In addition, in some financial markets projects, IFC funds are not targeted to specific subprojects, but the financial institution has operations which may have adverse environmental impacts (e.g. project finance). In such cases IFC may also classify the project as Category FI.

5. Due to the variety of FI projects encountered and the complexity of many of these projects, Annex F has been prepared which describes in detail the procedures which IFC has developed for categorizing FI projects and assessing their requirements. Examples of Category FI projects are:

- Corporate loans to banks
 - Credit lines
 - Private equity funds.
-

Annex C: Types of Environmental Assessment (EA)

1. The EA involves consideration of the following, as appropriate to specific projects:

- Assessment of the baseline environmental and social conditions
- Requirements under host country laws and regulations, applicable international treaties and agreements
- Sustainable use of natural resources
- Protection of human health, cultural properties, endangered species, and sensitive ecosystems
- Use of dangerous substances
- Major hazards
- Occupational health and safety
- Fire prevention and life safety
- Socioeconomic impacts
- Land acquisition and land use
- Involuntary resettlement
- Impacts on indigenous peoples and communities
- Cumulative impacts of existing projects, the proposed project, and anticipated future projects¹
- Participation of affected parties in the design, review and implementation of the project
- Consideration of environmentally and socially preferable alternatives
- Efficient production, delivery and use of energy
- Pollution prevention and waste minimization
- Pollution controls (liquid effluents and air emissions) and solid and chemical waste management.

2. Project-specific environmental assessments, including, as necessary, a review of social issues, are used to examine specific investment projects (e.g. mines, factories, power plants). The detail and sophistication of EA should be commensurate with the expected impacts. Depending on the potential environmental and social impact of a proposed project, the project sponsor must provide environmental and social information to IFC in the form of (a) an environmental impact assessment (EIA), (b) an environmental audit, (c) a corrective action plan, (d) a resettlement plan, or (e) an environmental analysis in specific areas of concern (e.g., pollution control, occupational health and safety), as described below. A major hazard assessment is required for projects involving the transportation, storage and handling of sufficient quantities of dangerous materials to present the potential for an incident of major consequence.

3. Additional information on EA may be found in the Annexes and Guidance Notes. Annexes D and E contain procedural requirements related to EA on large dams and reservoirs and EA for projects involving pest management. Guidance Note A provides a checklist of potential environmental and social issues which should be considered in an EIA. Guidance Notes B, C, D and E provide an outline for a project specific EIA, an environmental action plan, a project specific environmental audit, and a major hazard assessment.

Environmental Impact Assessment (EIA)

4. A full Environmental Impact Assessment (EIA) is required if a project is likely to have significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented. These projects may affect an area broader than the sites or facilities subject to physical works. Project-specific EIAs should normally cover (a) existing environmental and social baseline conditions; (b) potential environmental and social impacts (direct and indirect), including opportunities for enhancement; this includes the cumulative impact of the proposed project and other developments which are anticipated; (c) systematic comparison of feasible alternative investments, sites, technologies, and designs; (d) preventive, mitigating, and compensatory measures; (e) capacity for environmental and social management and training programs; (f) detailed results of the public consultation and disclosure program; and (g) monitoring. To the extent possible, the following items are quantified: capital and recurrent costs, environmental and social staffing, training,

¹ The assessment of cumulative impacts would take into account projects or potential developments that are realistically defined at the time the EA is undertaken, when they would directly impact on the project area.

monitoring requirements, and the benefits of proposed alternatives and mitigation measures.

Alternatives to an EIA

5. Many investment projects do not need an EIA. Typically, these projects are not in environmentally and socially sensitive areas and have potential impacts that are narrow in scope, well-defined, well-understood, and straightforward to prevent or mitigate. Such projects may result in specific impacts which can be avoided or mitigated by adherence to certain predetermined performance standards, guidelines, or design criteria. Alternative approaches may therefore be more effective in integrating environmental and social concerns into the project sponsor's planning process, and in focusing on the work needed. Such alternative approaches include, for example:

- a) environmentally sound design criteria, siting criteria, and pollution standards, acceptable to IFC, for small and medium-scale industrial plants;
- b) environmentally sound design criteria, siting criteria, and construction standards, acceptable to IFC, for small and medium-scale agribusiness and agricultural projects; and
- c) specific environmental and social siting and design criteria, construction standards, fire and life safety requirements, and inspection procedures, acceptable to IFC, for tourism projects.

6. The environmental assessment for such projects may consist, for example, of an environmental audit. An environmental audit is carried out on existing plants and focuses on two elements: (a) compliance of existing facilities and operations with relevant environmental (including occupational health and safety) and social laws, regulations, and IFC requirements; and (b) the nature and extent of environmental impacts, including contamination to soils, groundwater, and structures, as a result of past activities. A Corrective Action Plan (CAP) is often an outcome of an environmental audit. The CAP sets forth corrective action items, schedules for implementation and costs.

EA for Modernizations, Privatizations, Corporate Investment Programs and FI Lending

Expansions/Modernizations/Retrofits

7. In plant expansion and modernization projects, the entire plant (existing and proposed new facilities) undergoes an evaluation of environmental and social issues. Any new facilities or investments financed by IFC must conform to applicable IFC policies and meet applicable guidelines. In addition, IFC usually requires the project sponsor to retain an independent consultant to complete an environmental audit of the existing plant. Depending on the results of the audit, IFC makes recommendations and may require the project sponsor to undertake programs to bring the existing plant into compliance with applicable IFC policies and to meet the applicable guidelines within a reasonable time frame. A Corrective Action Plan (CAP) can be used to detail corrective action items, schedules for implementation and costs. For this purpose, IFC may propose to finance environmental improvements for the existing plant.

Privatizations

8. For privatization projects, the facilities to be privatized are subject to the environmental assessment including, as necessary, a review of social issues. IFC usually requires the project sponsor to retain an independent consultant to complete an environmental audit of the facilities. Depending on the results of the audit, IFC makes recommendations and may require the project sponsor to agree on programs to bring the facilities into compliance with applicable IFC policies and meet the applicable guidelines within a reasonable time frame. In sectors where no appropriate IFC policies or guidelines exist, IFC applies internationally recognized standards to the project. A Corrective Action Plan (CAP) can be used to detail action items, schedules for implementation and costs. For this purpose, IFC may propose to finance environmental improvements for the facilities. If new facilities are also involved, the new facilities financed by IFC must comply with applicable IFC policies and meet the applicable guidelines. Where privatization is expected to result in significant social and economic impacts due to loss of direct and indirect employment and/or impacts on the provision of basic social services, IFC may require the collection of information on the social impacts of the privatization. These issues will be considered during appraisal of the project, in accordance with the principles set forth in para 17 of the Procedure (Social Review).

Corporate Investment Programs

9. For investments in general corporate activities, the overall environmental and social performance of the project sponsor is assessed, and, if necessary, recommendations made to strengthen and improve the corporate environmental management system. In this regard, IFC may require the project sponsor to complete an environmental audit by an independent consultant and to discuss and agree with IFC on programs to achieve, within a reasonable time frame, compliance with applicable IFC policies and meet applicable guidelines. A Corrective Action Plan (CAP) can be used to detail action items, schedules for implementation and costs.

Financial Intermediary Operations

10. Financial intermediary operations involve a broad range of financial products and financial institutions. Thus IFC's environmental and social requirements are tailored to the particular FI project, as described in Annex F.

Annex D: Application of EA to Large Dam and Reservoir Projects

1. Early in IFC involvement, and preferably before preparation of the ESIM and the PDS, IFC's Environment Division ensures that the project sponsor selects and engages independent, recognized experts or firms, whose qualifications and terms of reference (TOR) are acceptable to IFC, to carry out environmental reconnaissance that includes:

- identifying the potential environmental, social and health impacts of the project;
- ascertaining the scope of the environmental assessment (EA);
- assessing the project sponsor's capacity to manage the EA process; and
- advising on the need for an independent environmental advisory panel.

2. IFC's Environment Division obtains from the project sponsor a copy of the results of the reconnaissance and ensures that they are taken into account in environmental screening, the preparation of the ESIM, and in the preparation of the EA TOR by the project sponsor. For dam and reservoir projects that are in an advanced stage of preparation when proposed for financing to IFC, the Environment Division determines whether any additional EA work is needed, and whether an independent environmental and social advisory panel is needed. A field visit for this purpose is normally required.

3. If the project sponsor engages an environmental and social advisory panel, IFC's Environment Division reviews and indicates to the project sponsor the acceptability of the TOR and proposed panel members.

4. In reviewing the EIA, IFC's Environment Division ensures that the EA, for power generation projects, examines demand side management opportunities. In appraising the project, it ensures that the project design adequately takes into account demand side management as well as supply options (e.g., conservation of water and energy, efficiency improvements, system integration, cogeneration and fuel substitution).

5. IFC's Environment Division ensures that the project company establishes an in-house environmental and social development unit, with adequate budget and professional staffing strong in

expertise relevant to the project, to manage the project's environmental and social aspects.

6. The following plans must be submitted to IFC for large dam projects. Requirements for submission of these plans for small dams will be specified on a case-by-case basis.

- a) *Plan for construction supervision and quality assurance.* This plan is provided to IFC during appraisal. It covers the organization, staffing levels, procedures, equipment, and qualifications for supervision of the construction of a new dam or of remedial work on an existing dam. IFC staff use the plan to assess the need to fund components under the loan to ensure that dam-safety-related elements of the design are implemented during construction.
- b) *Instrumentation plan.* This is a detailed plan for the installation of instruments to monitor and record dam behavior and the related hydrometeorological, structural, and seismic factors. It is provided to the independent panel and IFC during project appraisal.
- c) *Operation and maintenance (O&M) plan.* This detailed plan covers organizational structure, staffing, technical expertise, and training required; equipment and facilities needed to operate and maintain the dam; O&M procedures; and arrangements for funding O&M, including long-term maintenance and safety inspections. A preliminary plan is provided to IFC for use during appraisal. The plan is refined and completed during project implementation; the final plan is to be sent to IFC for review and approval not less than six months prior to the initial filling of the reservoir. Elements required to finalize the plan and initiate operations are normally financed under the project.
- d) *Emergency preparedness plan.* This plan specifies the roles of responsible parties when dam failure is considered imminent, or when expected operational flow release threatens downstream life, property, or economic operations that depend on river flow levels. It includes the following items: clear statements on the responsibility for dam operations decision making and for the related emergency communications; maps outlining inundation levels for various

emergency conditions; flood warning system characteristics; and procedures for evacuating threatened areas and mobilizing emergency forces and equipment. The broad framework plan and an estimate of funds needed to prepare the plan in detail are provided to IFC during appraisal. The plan itself is prepared during implementation and is provided to the independent safety panel and IFC for review and approval not later than one year before the projected date of initial filling of the reservoir.

7. For tailings dams, and impoundments of other materials such as ash from power plants, the EA must take into consideration the location and geotechnical aspects, potential impacts on ground and surface waters, toxicity aspects and the need for a liner, seepage control, leachate and runoff management, and surface water diversions.

Annex E: Application of EA to Projects Involving Pest Management

1. IFC's Environment Division ensures that any environmental assessment (EA) in the agriculture sector evaluates the project sponsor's capacity to manage the procurement, transportation, storage, handling, application, and disposal of pest control products; to monitor the precision of pest control and the impact of pesticide use; and to develop and implement ecologically based pest management programs.

Project EA

2. Early in IFC involvement, and preferably before preparation of the Environmental and Social Information Memorandum (ESIM) and the Initial Project Summary (IPS), IFC's Environment Division assesses whether the proposed project may raise potential pest management issues. Projects that include the manufacture, use or disposal of environmentally significant¹ quantities of pest control products are classified as Category A. Depending on the level of environmental risk, other projects involving pest management issues are classified as B, C, or FI.² When substantial quantities of highly toxic materials for use under the project are transported or stored, a hazard assessment may be appropriate.³

3. IFC's Environment Division staff record in the ESIM any pest management issues that the EA will address. For Category A projects, the ESIM will report whether the project:

- will finance procurement of pest control products directly or will provide credit that may be used to purchase pest control products (and whether any specific products are excluded from financing), or
- includes components aimed at reducing environmental and health hazards associated with pest control and the use of pesticides, including support for development and implementation of integrated pest management (IPM) programs.

As necessary, these issues will be addressed in the IPS.

4. IFC's Environment Division staff ensure that the EA covers potential issues related to pest management and considers appropriate alternative designs or mitigation measures. Depending on the issues identified, the environmental action plan (EAP)⁴ includes a pest management plan. The pest management plan and EAP are prepared by the project sponsor.

Pest Management Plan

5. A pest management plan is a comprehensive plan, developed when there are significant pest management issues such as:

- new land-use development or changed cultivation practices in an area,
- significant expansion into new areas,
- diversification into new crops in agriculture,⁵
- intensification of existing low-technology systems,
- proposed procurement of relatively hazardous pest control products or methods, or
- specific environmental or health concerns (e.g., proximity of protected areas or important aquatic resources; worker safety).

A pest management plan is also developed when proposed financing of pest control products represents a large component of the project.⁶

6. A pest management plan reflects the policies set out in OP 4.09, *Pest Management*. The plan is designed to minimize potential adverse impacts on human health and the environment and to advance ecologically based IPM.⁷ The plan is based on on-site evaluations of local conditions conducted by appropriate technical specialists with experience in participatory IPM. The first phase of the plan - an initial reconnaissance to identify the main pest problems and the contexts (ecological, agricultural, public health, economic, and institutional) and to define broad parameters - is carried out as part of

¹ For the purposes of this statement, "environmental significance" takes into account the impacts (including benefits) on human health.

² For environmental screening, see Annex B

³ For definitions, see Guidance Note E.

⁴ See Guidance Note C.

⁵ Particularly such crops as cotton, vegetables, and rice, which are often associated with heavy use of pesticides.

⁶ A pest management plan is not required for the procurement or use of impregnated bednets for malaria control, or of WHO Class III insecticides for intradomestic spraying for malaria control.

⁷ See the World Bank's GP 4.03 on Agricultural Pest Management for information on IPM.

project review and is evaluated early in IFC involvement. The second phase - development of specific operational plans to address the pest problems identified - is often carried out as a component of the project itself.⁸ As appropriate, the pest management plan specifies procedures for screening pest control products. In exceptional cases, the pest management plan may consist of pest control product screening only.

Screening of Pest Control Products

7. Pest control product screening is required when a project finances pest control products. The screening establishes an authorized list of pest control products approved for financing, along with a mechanism to ensure that only the specified products will be procured with IFC funds. Screening without a pest management plan is appropriate only when all of the following conditions are met:

- expected quantities of pest control products are not significant from a health or environment standpoint;
- no specific environmental or health concerns related to pest control need to be addressed;
- the project will not introduce pesticide use or other non-indigenous biological control into an area, or significantly increase the level of pesticide use; and
- no hazardous products⁹ will be financed.¹⁰

Environmental Review

8. Depending on the complexity of the issues involved and the degree of risk to human health or

⁸ For the content of a pest management plan, see the World Bank's GP 4.03 on Agricultural Pest Management.

⁹ Hazardous products include pesticides listed in Class Ia and Ib of the World Health Organization (WHO) *Classification of Pesticides by Hazard and Guidelines to Classification* (Geneva: WHO, 1994-95); materials listed in the UN *Consolidated List of Products Whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted, or not Approved by Governments* (New York: UN, 1994); and other materials that are banned or severely restricted in the borrower country because of environmental or health hazards. Copies of the WHO classification and UN list, which are updated periodically, are available in the IFC Information Center. Staff may consult IFC's Environment Division for further guidance.

¹⁰ The World Bank's GP 4.03 on Agricultural Pest Management provides further information on pest control product screening.

the environment, the IFC appraisal mission may include appropriate technical specialists.

9. In reviewing the EA report, IFC's Environment Division staff note pest management concerns arising from the EA report and any proposed project interventions pertinent to pest management, for example:

- a list of pest control products authorized for procurement, or an indication of when and how this list will be developed and agreed on;
- existing pest management practices; pesticide use; the policy, economic, institutional, and legal framework for regulating, procuring, and managing pesticides; and the extent to which all these are consistent with an IPM approach;
- proposed project activities (or ongoing parallel activities, including other projects supported by IFC, the World Bank Group, or other donors) aimed at addressing:
 - the shortcomings identified; and
 - any constraints to adopting IPM.
- proposed mechanisms for financing, implementing, monitoring and supervising components relating to pest management or pesticide use, including any role envisaged for local nongovernmental organizations;
- the capacity of responsible institutions to carry out the activities described; and
- the overall sectoral context and other issues that will not be directly addressed under the project but that should be addressed as long-term objectives.

10. The main elements of the pest management measures are reflected in the legal agreements between the project company and IFC.¹¹

Supervision and Monitoring

11. Depending on the nature and complexity of the pest management and pesticide-related issues

¹¹ For example, such legal agreements may need to include requirements to ensure the effective implementation of project components such as, (a) establishing or strengthening pesticide supervision and monitoring framework and capabilities, (b) properly operating and/or constructing pesticide storage or disposal facilities, or (c) agreeing on a time-bound program to phase out use of an undesirable pesticide and properly dispose of any existing stocks.

confirmed during the environmental review, IFC supervision missions may need to include appropriate technical specialists.

12. The project company's annual monitoring report evaluates the environmental impact of pest management practices supported or promoted by the project, as well as the project company's management capacity. It also discusses whether the project has resulted in improved pest management practices according to the criteria that define the IPM approach.

Annex F: Procedure for Financial Intermediary (FI) Projects

1. IFC has developed special requirements for Category FI projects. These requirements may range from the provision of training for FI staff to IFC subproject review and monitoring of all subprojects. The requirements depend on the kind of financial institutions and financial products involved. Requirements have been set forth according to 'types' (see Table 2). A matrix (see Table 3) has been developed which sets forth IFC's typical approach and requirements for each type of project. The requirements under this procedure will apply to all financial intermediary projects having an Investment Review Meeting on or after July 2, 1998.¹

Diversity of Financial Markets Operations

2. IFC's financial markets projects involve a broad range of financial products and financial institutions. A financial markets project may establish a new institution such as a bank, private equity fund, or rating agency, or it may provide funds to existing institutions through, for example, credit lines and back stop facilities. Subprojects supported through financial institutions are diverse. They may involve project finance or financing of a single piece of equipment, as in an equipment lease. Private equity funds may finance companies with diverse operations or specific projects, and they may acquire majority or minority interests. Some financial markets operations involve a small number of subprojects, while others, such as leasing companies, may involve tens of thousands of individual investments.

3. Moreover, IFC's financing of subprojects through financial institutions may take different forms. Funds may flow directly through the financial institution to a specific subproject, as with some credit lines. In other cases, such as an equity investment in a commercial bank, IFC funds are not targeted to specific subprojects but support an institution whose investments may have environmental and/or social impacts, such as corporate finance or project finance.

Definition of Subproject

¹ Because this procedure is better tailored to the needs of the financial sector than previous environmental review procedures, the requirements of this procedure may, at the discretion of the Environment Division and with the project sponsor's agreement, be applied to Category FI and C projects in the portfolio and pipeline prior to the effective date of this procedure.

4. Recognizing the diverse nature of financial institutions and their operations, for categorization purposes *subproject* is defined in general terms as a project or operation financed through a financial intermediary. If the FI's subprojects may potentially result in adverse environmental and/or social impacts, the project is categorized as FI. If subprojects potentially result in minimal or no adverse environmental and/or social impacts, the project is categorized as C.

Environmental and Social Requirements for Category FI Projects

5. The FI category allows flexibility to tailor environmental and social requirements to the project and anticipated subprojects. Requirements for various kinds of situations are grouped into categories, or *types*, as follows.

- a. **Type 1 Requirements.** When IFC funds are not targeted to specific subprojects but the financial institution has operations which may have adverse environmental and/or social impacts, IFC focuses on the *process* of environmental and social management in the institution rather than on specific *subprojects*. Type 1 requirements are also applied in situations in which it is impractical or infeasible for the financial institution to impose requirements on subprojects other than host country laws and regulations e.g., microfinance, trade finance. The following requirements apply:
 - i. The FI must establish an environmental and social management system (policy, procedure, resources) for relevant operations² and require that activities conducted under those operations comply with host country environmental, health and safety requirements.
 - ii. The FI must appoint a senior officer with overall responsibility for environmental and social issues and identify an individual who will manage and/or conduct reviews. Both must attend IFC sponsored or approved training in environmental and social management for financial institutions.

² For example, project finance, corporate loans, or leasing operations in a commercial bank.

- iii. The FI must submit an annual environmental performance report which focuses on its environmental and social management system.
 - iv. Microfinance projects, which are usually classified as Type I, are required to comply with host country environmental, health and safety requirements, and must abide by the requirements in Table 4, *Microfinance Exclusion List*.
- b. Type 2 Requirements.** For Category FI projects in which IFC funds are targeted through the financial intermediary directly to specific subprojects which may have adverse environmental and/or social impacts, IFC focuses on both the *process* and the *subproject*. The following requirements apply in addition to the requirements outlined in paragraphs 5(a)(ii) and 5(a)(iii):
- i. The FI must establish an environmental and social management system (policy, procedure, resources) for subprojects financed with IFC funds. The FI must also require that subprojects comply with host country environmental, health and safety requirements and, IFC environmental and social policies unless the total project cost³ is less than \$500,000. The FI must require that these small projects comply with host country requirements and the requirements in Table 4, *Microfinance Exclusion List*. FIs are encouraged to apply the environmental and social management system to all relevant operations.⁴
 - ii. Subprojects involving items on the Exclusion List (see Annex A) may
- not normally be financed with IFC funds.
 - iii. Guidelines including those set forth in the *Pollution Prevention and Abatement Handbook*, and the *Occupational Health and Safety Guidelines*, may apply on a case-by-case basis, depending on the kind of finance being offered, the nature and scale of anticipated subprojects, and the environmental and social requirements of the jurisdictions in which the subprojects will be located. In applying the flexibility permitted in OP 4.01, *Environmental Assessment*, typically the FI will require that Category A subprojects meet applicable guidelines and comply with host country requirements, and that Category B subprojects comply with host country requirements. Guidelines in effect at the time of subproject appraisal apply.
 - iv. IFC must clear all Category A subprojects. IFC's review will usually include a site visit by Environment Division staff or a consultant retained by IFC.
 - v. For Category A subprojects, public consultation is required during preparation of the EA report, and a draft of the EA report must be released in-country in a public place accessible to project affected people and local NGOs. It is recommended that the draft EA report be released as early as possible but no later than 60 days prior to the final decision by the financial institution's management (or Board, as appropriate). It is recognized that the ability of the financial institution to impose requirements for consultation, disclosure, policies or guidelines may be limited under certain circumstances.⁵ In such cases, the

³ Total project cost is defined as the total value of direct capital investment for project development, land, infrastructure, equipment, working capital, initial marketing expense or any other expenditure incurred by the project as part of the initial investment, financed by equity, debt or in-kind contributions.

⁴ See footnote 2 above.

⁵ For example, a private equity fund may be asked to invest in a project post-construction as part of a conversion

institution should make a best effort to achieve consistency of the subproject with IFC's requirements, and the Environment Division will apply a test of reasonableness during its review process.

- vi. The FI must submit an annual environmental performance report which focuses on both its environmental and social management system and subprojects.
- vii. IFC must have access to subprojects for supervision site visits.

c. **Type 3 Requirements.** When IFC is the lender of record on subprojects, the following requirements apply in addition to Type 2 requirements:

- i. IFC must clear all subprojects.
- ii. Subprojects must comply with the applicable guidelines (e.g., *Pollution Prevention and Abatement Handbook, Occupational Health and Safety Guidelines*).
- iii. Disclosure requirements for IFC's direct investments apply to subprojects.

6. To assist IFC environmental and social specialists in assessing FI projects, examples of how the Type requirements would typically be applied in different situations are given in Table 3. This list is illustrative only and may change from time to time. Requirements for specific projects may differ from these examples depending upon the nature of the transaction. Also, the above "Typed" methodology does not address all situations. Professional judgment must always be exercised by the environmental and/or social specialist in determining the requirements for specific FI projects.

7. Figure 3 shows typical requirements for FIs.

Equipment Finance and Small Corporate Loans

of debt to equity financing. In some situations, a fund may have to make a decision on an investment opportunity within a matter of days. Often a fund's position as a minor or passive shareholder may not give it sufficient leverage to impose any requirements.

8. When an FI is providing debt or lease finance for equipment or other assets which represent a relatively small portion of a total project or a company's assets, rather than providing traditional project finance, the FI should ensure that the equipment or assets financed comply with host country requirements. A similar requirement applies when an FI is financing a relatively small proportion of a company's balance sheet in the form of a corporate loan. The FI must exercise professional judgment regarding the scope of its environmental and social due diligence on the company or project as a whole. If the investment represents a significant component of the total project and/or the company assets, then it is in the FI's best interest to determine that the total project and/or the company complies with host country requirements and, as appropriate, applicable IFC requirements, and that it does not have environmental and/or social liabilities, e.g., contaminated site, which would pose a credit risk or other risk to the FI.

Special Issues Associated with Funds

9. Environmental and social requirements for investments in funds are particularly complex. A number of issues specific to funds are addressed below.

- a. If IFC invests equity in a fund manager, funds in which IFC has not invested which are managed by the same company are not subject to IFC requirements.
- b. If a subproject in which the fund invests meets IFC requirements at appraisal but subsequently fails to do so, and the fund does not have management control or enough leverage to enforce compliance with the requirement, the fund manager should first try to resolve the problem. If this is not possible, the fund manager should exit as soon as possible, taking into account liquidity, market constraints, and fiduciary responsibilities.
- c. If a company in which a fund has invested subsequently undertakes a Category A subproject, the fund manager should use its best effort to ensure the project meets IFC's requirements, including clearance of the project by the Environment Division. In such cases, IFC or the fund manager may not have sufficient leverage to impose requirements. The fund should report on the subproject in its annual environmental performance report. If there are significant issues which cannot be resolved, the fund

should exit as soon as possible, taking into account liquidity, market constraints, and fiduciary responsibilities.

- d. Passively managed vehicles, e.g., mutual funds, should not invest in companies engaged in activities on the Exclusion List (see Annex A).

Monitoring and Supervision

10. In an FI project, investment is channeled through a financial intermediary which acts as IFC's vehicle to provide funding. The FI is responsible for implementing an environmental and social management system and, under Types 2 and 3, for categorizing, appraising and supervising subprojects. IFC needs to ensure the proper implementation of its environmental and social mandate, while respecting the principle of delegated responsibility that characterizes this kind of operation.

11. To help FI clients develop and improve their environmental and social review capability, IFC provides training, specifically designed for financial institutions, that covers a broad range of issues such as identification of environmental and social impacts, project categorization, and tools for managing environmental and social risks, including IFC policies and guidelines. IFC is available during project implementation to assist FI clients with development of their environmental and social management system and to provide guidance on review of specific subprojects.

12. Monitoring and supervision of FI projects are handled similarly to Category A and B projects, i.e., through annual performance reports, supervision missions, and project site visits. Because responsibility for environmental and social review of subprojects is delegated to the FI, the primary focus of supervision is the FI's environmental and social management system, e.g., proper project categorization and identification of issues, quality of environmental and social appraisals, documentation, and subproject supervision. Site visits to subprojects may also be conducted to verify results on the ground.

Cofinancing with Other Multilateral Financial Institutions (MFI)

13. In cofinancing situations with other multilateral financial institutions (MFIs), the Environment Division may negotiate a single consistent set of requirements for subprojects with the other MFI, even if the requirements are not exactly the same as IFC's, providing they are acceptable to both parties.

Table 2: Category FI Requirements by Types

Requirement	Type 1 (Process focus)	Type 2 (Subproject focus)	Type 3 (Lender of record)
Training	√	√	√
Process (policy, procedure, responsible staff)	√	√	√
Annual report on process	√	√	√
Annual report summarizing subprojects' performance		√	√
General Exclusion List		√	√
Host-country laws	√	√	√
IFC policies		√	√
Category A subprojects - meet applicable guidelines		√	√
Category B subprojects - meet applicable guidelines			√
IFC clearance of category A sub-projects		√	√
IFC clearance of each sub-project			√

Table 3: Typical IFC Requirements for FIs

(Requirements for specific projects may vary from these examples depending on the nature of the transaction)

Financial Institutions/Products	Corporate Loan	Back-stop Facility	Equity and Quasi-Equity	Credit Line	Agency Credit Line	Underwriting Credit Line	Risk Mgmt
Commercial Banks	T1	T1	T1	T2	T3	T2	N/A
Leasing Companies	T1	T1	T1	T2	T3		N/A
Securities Underwriters and Broker/Dealers	N/A	N/A	N/A			T2	N/A
Factoring Companies	N/A	N/A	N/A				N/A
Primary Mortgage Banks	T1	T1	T1				N/A
Micro-finance Institutions	T1		T1				N/A
Merchant and Development Banks	T1	T1	T1	T2	T3	T2	N/A
Finance Companies	T1	T1	T1	T2	T3	T2	N/A
Pooled Investment Vehicles							
• Private Equity Funds			T2				
• Equity Mutual Funds			N/A				
• Bond Funds	N/A		N/A				
• Privatization Funds	T2		T2				
Fund Management Companies							
• Private Equity Funds	T1		T1				
• Equity Mutual Funds	N/A		N/A				
• Bond Funds	N/A		N/A				
• Privatization Funds	T1		T1				
Special Purpose Vehicles (CLO/CBO)	N/A		N/A				
Insurance Companies							
• Life	N/A	N/A	N/A				
• Property/Casualty	T1	T1	T1				
• Infrastructure Monoline	T1	T1	T1				
• General Monoline	N/A	N/A	N/A				
Stock Exchanges	N/A		N/A				
Rating Agencies	N/A		N/A				
Stock Registry Companies	N/A		N/A				

Table 4: Microfinance Exclusion List

1. IFC funds may not be used to finance the following projects:

- Production or activities involving harmful or exploitative forms of forced labor¹/harmful child labor².
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- Production or trade in weapons and munitions.³
- Production or trade in alcoholic beverages (excluding beer and wine).³
- Production or trade in tobacco.³
- Gambling, casinos and equivalent enterprises.³
- Trade in wildlife or wildlife products regulated under CITES.⁴
- Production or trade in radioactive materials.⁵
- Production or trade in or use of unbonded asbestos fibers.⁶

- Production or trade in wood or other forestry products from unmanaged forests.
- Production or trade in products containing PCBs.⁷
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals.⁸
- Production or trade in pharmaceuticals subject to international phase outs or bans.⁹
- Production or trade in pesticides/herbicides subject to international phase outs or bans.¹⁰
- Production or trade in ozone depleting substances subject to international phase out.¹¹
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples.

¹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

² Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

³ This does not apply to subproject sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a subproject sponsor's primary operations.

⁴ CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. A list of CITES listed species is available from the Environment Division.

⁵ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.

⁶ This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

⁷ PCBs: Polychlorinated biphenyls—a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

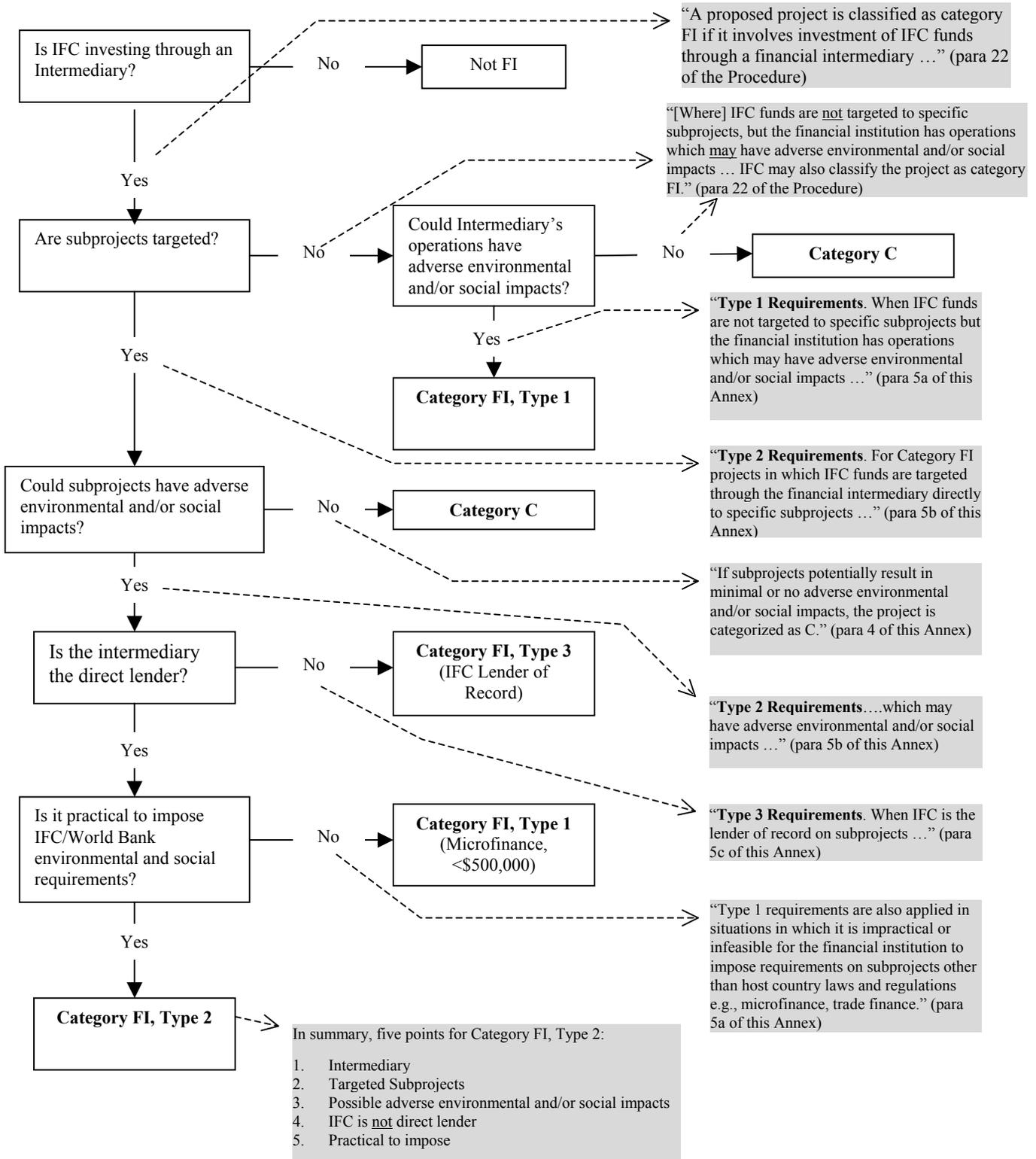
⁸ A list of hazardous chemicals is available from the Environment Division. Hazardous chemicals include gasoline, kerosene and other petroleum products.

⁹ A list of pharmaceutical products subject to phase outs or bans is available from the Environment Division.

¹⁰ A list of pesticides and herbicides subject to phaseouts or bans is available from the Environment Division.

¹¹ Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the Environment Division.

Figure 3: Decision Chart for Determining Type of FI Project



Glossary of Terms

Annual Monitoring Report - A document prepared by the project company, outlining environmental and social performance for the previous year. The Annual Monitoring Report should be submitted to IFC no later than ninety (90) days after the end of the company's fiscal year (FY).

Corrective Action Plan - In the case of existing operations, plant modernizations, privatizations and corporate investment programs, a Corrective Action Plan (CAP) may be required to address remediation or corrective action to bring facilities into compliance with IFC requirements. The CAP should also provide details of an implementation schedule and costs.

Environmental and Social Clearance - An internal determination by IFC, based on results of the environmental and social review, that a proposed project complies with applicable IFC environmental and social policies and meets applicable guidelines.

Environmental and Social Clearance Memorandum (ESCM) - Issued by IFC's Environment Division to the Investment Department, the ESCM is a document which states that the project complies with applicable environmental and social requirements. It also details outstanding issues and actions required to address those issues, and monitoring requirements and recommendations regarding any other obligations of the project sponsor. The investment officer conveys these requirements to the project sponsor.

Environmental Action Plan (EAP) - A document consisting of mitigation, management, monitoring and institutional measures to be taken during implementation and operation to eliminate or offset adverse impacts or reduce them to acceptable levels. The plan also includes the actions, schedules for implementation and costs needed to implement these measures.

Environmental and Social Information Memorandum (ESIM) - A document prepared by IFC's Environment Division and issued to the investment officer (and technical specialist) upon receipt of the project description. The ESIM details the following information: the category of the project; the major environmental and social concerns associated with the project; the draft of the environmental language for the PDS and the MOR; details of the environmental and social information required from the project sponsor to enable the Environment Division to complete the review

process; and typical standards for a project of this sort which will be applied in reviewing the project.

Environmental and Social Review - IFC's internal procedure to review the project sponsor's environmental assessment and to work with the project sponsor to address environmental and social issues associated with the project.

Environmental Assessment (EA) - The process of evaluating the environmental and social impacts of a project and identifying ways to improve the project by preventing, minimizing, mitigating, or compensating for adverse impacts. Environmental assessment is the responsibility of the project sponsor.

Environmental Audit - A process to determine the nature and extent of all environmental areas of concern (including occupational health and safety) at an existing facility or with corporate practices. The audit identifies and justifies the appropriate measures to mitigate the areas of concern, estimates the cost of the mitigation measures, and recommends a schedule for implementation of these mitigation measures.

Environmental Impact Assessment (EIA) - An instrument to identify and assess the potential environmental impacts of a proposed project, evaluate alternatives, and design appropriate mitigation, management, and monitoring measures.

Environmental Review Summary (ERS) - A document prepared by IFC which summarizes the key findings of IFC's environmental and social review of a Category B project.

IFC Project Cycle - The progression of a project from the point of initial contact with IFC by the project sponsor through project appraisal, approval, supervision, and evaluation. The IFC project cycle is outlined in Figure 1.

Investment Assessment Report (IAR) - A confidential internal report prepared by IFC's Investment Departments (and required by IFC's Board), the IAR is a tool which IFC uses to learn from past experience. All IARs should evaluate the actual environmental and social impacts of the project against the impacts anticipated in the EA report, and should assess the effectiveness of the mitigating measures adopted by the project sponsor.

Investment Policy Committee (IPC) - members of this committee which reviews policy issues are the Vice Presidents of Investment Operations and Portfolio Management, and the Vice President and General Counsel.

Investment Review Meeting (IRM) – after completion of project appraisal, the Investment Department Director chairs this meeting, which is the basis for IFC management approval of the project. The full project team attends the IRM as appropriate.

Major Hazard Assessment - A process for identifying, analyzing and controlling hazards associated with the presence of dangerous materials at an installation. IFC requires a major hazard assessment for projects involving selected flammable, explosive, reactive, and toxic materials when the quantity of these materials present at the site is above the specified threshold level.

Project Appraisal - The collection and evaluation of detailed information about a proposed project to determine whether IFC should invest in it.

Project Company - The legal entity which enters into the investment agreement with IFC.

Project Cycle - The progression of a project from conception through construction, implementation, and evaluation. The IFC project cycle is a subset of this project cycle.

Project Data Sheet (PDS) - a document prepared by the project team which contains a project description, details of the potential investment, highlights any policy issues and potential dealbreakers, reviews IFC's role in the project and development impact, and outlines environmental and social issues and policy concerns (including project categorization). The PDS is continually updated during project appraisal and is a key decision document for the Investment Review Meeting.

Project Sponsor - The investor or project proponent or borrower, as the case may be, requesting IFC financing for a proposed project.

Project Supervision Report (PSR) - A confidential internal report prepared by IFC's Investment Departments at least once a year for each project. The PSR must include a section on compliance with regard to covenants on environmental and social matters.

Public Consultation - The process of engaging affected people and other interested parties in open dialogue through which a range of views and concerns can be expressed in order to inform decision-making and help build consensus. To be meaningful, consultation should be carried out in a culturally appropriate manner, with information in local languages distributed in advance.

Public Consultation and Disclosure Plan (PCDP) - A PCDP defines a technically sound and culturally appropriate approach to meaningful consultation and disclosure. The plan describes local requirements for consultation and disclosure, identifies key stakeholder groups, provides a strategy and timetable for sharing information and consulting with each of these groups, describes resources and responsibilities for implementing the PCDP and details reporting/documentation of the consultation and disclosure activities.

Public Disclosure - The process of making information available to affected people and other interested parties, particularly with regard to the environmental and social aspects of projects. Disclosure of information should be done in a timely manner, in publicly accessible locations and in a language and format readily understood by affected groups.

Resettlement Plan - The document prepared whenever people are displaced physically or economically from land or other fixed resource rights they own or occupy, without there being a "willing seller" or the possibility of rejecting the loss. The plan is the record of the process of analyzing baseline conditions, predicting impacts, consulting affected people, and drawing up a detailed strategy for (a) minimizing or avoiding resettlement; (b) compensating for losses, (c) relocating and rebuilding as necessary, and (d) ensuring that affected people are afforded the opportunity to improve the incomes, income-producing activities, and standards of living that they had before the project affected them, or at a minimum to restore the incomes and living standards that they would have had if the project had not affected them. The Resettlement Plan is linked to the EA process, is subject to public disclosure, and is normally the responsibility of the project sponsor.

Stakeholders - Stakeholders are persons or groups who are affected by or can affect the outcome of a project. These can include affected communities, local organizations, NGOs and government authorities. Stakeholders can also include politicians, commercial and industrial enterprises, labor unions, academics, religious groups, national social and environmental public sector agencies and the media.

Summary of Project Information (SPI) - A document prepared by the Investment Department after the Investment Review Meeting. The SPI provides a brief factual summary of the main elements of the evolving project. The SPI is released to the World Bank InfoShop a minimum of thirty

(30) days prior to Board consideration (regular procedure), Closing Date (streamlined procedure), or management approval date (delegated authority), and includes the environmental category for the project, a brief summary of any environmental and social issues, and the mitigation measures designed to address those issues.

World Bank InfoShop - The World Bank InfoShop (formerly called the Public Information Center—PIC) allows interested parties to request and obtain publicly available information about IFC's activities. The World Bank InfoShop deals only with requests for specific documents (including ERSs, SPIs and EA reports), not blanket requests for information related to the World Bank Group.

GUIDANCE NOTES

- Guidance Note A: Checklist of Potential Issues for an EIA**
 - Guidance Note B: Content of an Environmental Impact Assessment Report**
 - Guidance Note C: Outline of an Environmental Action Plan (EAP)**
 - Guidance Note D: Outline of a Project Specific Environmental Audit**
 - Guidance Note E: Outline of a Project Specific Major Hazard Assessment**
 - Guidance Note F: Guidance for Preparation of a Public Consultation and Disclosure Plan (PCDP)**
-

Guidance Note A: Checklist of Potential Issues for an EA

1. Where applicable, the environmental assessment should address the following issues, which are subject to applicable IFC policies and applicable guidelines:

- **Agrochemicals.** OP 4.09 promotes the use of integrated pest management and the careful selection, application, and disposal of pesticides. Due to their potential impacts on surface and groundwater quality, the use of fertilizers must also be carefully assessed.
 - **Biological Diversity.** IFC promotes conservation of endangered plant and animal species, critical habitats, and protected areas.
 - **Coastal and Marine Resources Management.** Guidelines are available on the planning and management of coastal marine resources, including coral reefs, mangroves, and wetlands.
 - **Cultural Properties.** IFC is committed to protecting nonreplicable cultural property. Sites, structures, and remains of archaeological, paleontological, historical, religious, cultural, aesthetic, or unique natural value are covered.
 - **Dams and Reservoirs.** Large dams (over 15 meters in height) and dams with special design complexities require review by a panel of independent experts.
 - **Energy Efficiency.** IFC is committed to ensuring that projects are energy efficient. Where appropriate, in the project appraisal process the technical specialist reviews options for improved energy efficiency with the project sponsor.
 - **Environmental Guidelines.** Industrial operations and projects in other sectors where relevant must meet applicable environmental guidelines as set forth in the World Bank Group's "*Pollution Prevention and Abatement Handbook*".
 - **Hazardous and Toxic Materials.** Guidelines are available from the Environment Division on the safe manufacture, use, transport, storage, and disposal of hazardous and toxic materials.
 - **Indigenous Peoples.** An indigenous peoples action plan is required for every project impacting on indigenous peoples. The current World Bank OD 4.20, *Indigenous Peoples* (OP. 4.10 *Indigenous Peoples* is forthcoming) contains the requirements for the action plan.
 - **Induced Development and Other Socio-cultural Aspects.** Secondary growth of settlements and infrastructure, often referred to as "induced development" or "boomtown" effects, can have major indirect environmental and social impacts, which relatively weak local governments may have difficulty addressing. Such impacts should be taken into account in project design.
 - **International Treaties and Agreements on the Environment and Natural Resources.** There are a number of international treaties and agreements on a range of environmental and natural resource issues (e.g. ozone depletion, global warming, sea level rise, ocean dumping, pollution of international waters, marine environmental protection, transport of hazardous wastes and biodiversity). IFC requires these treaties and agreements to be considered in a project's environmental analyses, where relevant and feasible, with a view to minimizing possible adverse impacts on global environmental quality.
 - **International Waterways.** OP 7.50 sets forth obligations upon the project sponsor and IFC for projects located on international waterways. International waterways border on two states but the definition also includes tributaries.
 - **Involuntary Resettlement.** A resettlement plan (see Annex J) is required for every project involving involuntary resettlement and impacts from land acquisition. OP 4.12 (forthcoming) contains the requirements for resettlement plans.
 - **Land Settlement.** The managed process of opening new lands to planned permanent occupancy. Due to the complex physical, biological, socioeconomic, and cultural impacts, land settlement, land use, land title and land acquisition should be carefully reviewed.
-

- **Major Hazards.** All projects which involve dangerous materials in sufficient quantities to represent a significant hazard with the potential for an incident of major consequence are required to complete a major hazard assessment and establish a formal plan to prevent and manage hazards. The World Bank document "*Techniques for Assessing Industrial Hazards: A Manual.*" *Technical Paper No. 55, Washington DC, 1988*, should be consulted.
 - **Natural Hazards.** The environmental assessment should review whether the project may be affected by natural hazards (e.g., earthquakes, floods, volcanic activity) and should propose specific measures to address these concerns when appropriate.
 - **Natural Resources.** Exploitation of natural resources must be carried out in an environmentally and socially sound manner and on a sustainable basis.
 - **Occupational Health and Safety.** All industry and energy projects, and projects in other sectors where relevant, should include formal plans to promote occupational health and safety. See World Bank Group's *Occupational Health and Safety Guidelines*.
 - **Ports and Harbors.** Guidelines are available on addressing common environmental and social concerns associated with port and harbor development. See World Bank, "*Environmental Considerations for Port and Harbor Developments,*" *Technical Paper No. 126, Washington, DC, 1990*.
 - **Restoration and Rehabilitation of Disturbed Land.** A comprehensive restoration and rehabilitation plan should be prepared by the project sponsor. The aim of the plan will be to ensure that land is returned to a condition capable of supporting prior land use, equivalent uses or other acceptable uses. The restoration and rehabilitation plan must be submitted to IFC for review and approval (see for instance: "*Base Metal and Iron Ore Mining, Industry Sector Guidelines,*" *Pollution Prevention and Abatement Handbook*).
 - **Tropical Forests.** Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests are not financed by IFC (OP 4.36).
 - **Watersheds.** IFC promotes the protection and management of watersheds as an element of lending operations for dams, reservoirs, and irrigation systems.
 - **Wetlands.** IFC promotes conservation and management of wetlands (e.g., estuaries, lakes, mangroves, marshes, and swamps) in its project work.
 - **Wildlands.** IFC is committed to protecting wildlands and sponsors must provide for compensatory measures when the project results in adverse impacts.
-

**Guidance Note B: Content of an
Environmental Impact Assessment Report**

1. IFC's Operational Policy 4.01, *Environmental Assessment*, requires a full Environmental Assessment for Category A projects - this is normally an Environmental Impact Assessment. An environmental impact assessment (EIA) report for a Category A project¹ identifies and assesses the potential environmental and social impacts of the project, evaluates alternatives, and recommends appropriate mitigation, management, and monitoring measures. The report's scope and level of detail should be commensurate with the project's potential impacts. The report submitted to IFC is prepared in English, French, or Spanish, and the Executive Summary in English. The Executive Summary and other supplemental information used as part of the local public consultation and disclosure program must also be produced in the local language.

2. An EIA report should include the following items (not necessarily in the order shown):

- a) **Executive summary.** Concisely discusses significant findings and recommended actions.
- b) **Policy, legal, and administrative framework.** Discusses the policy, legal, and administrative framework within which the EIA is carried out. Explains the environmental and social requirements of any cofinanciers. Identifies relevant international environmental agreements to which the country is a party.
- c) **Project description.** Concisely describes the proposed project and its geographic, ecological, social, and temporal context, including any off-site investments that may be required (e.g., dedicated pipelines, access roads, power plants, water supply, housing, and raw material and product storage facilities). Normally includes a map showing the project site and the project's area of influence.
- d) **Baseline data.** Assesses the dimensions of the study area and describes relevant physical, biological, and socioeconomic conditions, including any changes anticipated before the project commences. Also takes into account current and proposed development activities within the project area but not directly connected to the project. Data should be relevant to decisions about project location, design, operation or mitigatory measures. The section indicates the accuracy, reliability and sources of the data.
- e) **Environmental and social impacts.** Predicts and assesses the project's likely positive and negative impacts, in quantitative terms to the extent possible. Identifies mitigation measures and any residual negative impacts that cannot be mitigated. Explores opportunities for enhancement. Identifies and estimates the extent and quality of available data, key data gaps, and uncertainties associated with predictions, and specifies topics that do not require further attention.
- f) **Analysis of alternatives.**² Systematically compares feasible alternatives to the proposed project site, technology, design, and operation—including the “without project” scenario—in terms of their potential environmental and social impacts; the feasibility of mitigating these impacts; their capital and recurrent costs; their suitability under local conditions; and their institutional, training, and monitoring requirements. For each of the alternatives, quantifies the environmental and social impacts to the extent possible, and attaches economic values where feasible. States the basis for selecting the particular project design proposed and justifies recommended emission levels and approaches to pollution prevention and abatement.

¹ The EA report for a Category A project is normally an environmental impact assessment (EIA), with elements of other instruments, such as an environmental audit, included as appropriate. Any report for a Category A project uses the components described in this annex. IFC's Environment Division can provide detailed guidance on the focus and components of the various EA instruments.

² An EIA is normally best suited to the analysis of alternatives within a given project concept (e.g., a geothermal power plant, or a project aimed at meeting local energy demand), including detailed site, technology, design, and operational alternatives. Where a project has broad environmental implications (e.g. large reservoir), these should be addressed through a careful and comprehensive analysis of the project's area of influence and the proper scoping of the EIA.

g) *Environmental Action Plan (EAP)*. A project's EAP (see Guidance Note C) consists of the set of mitigation, monitoring, and institutional measures to be taken during implementation and operation to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels. The plan also includes the actions needed to implement these measures. The action plan is sometimes also known as a "management plan" or "corrective action plan" when used in conjunction with a project specific environmental audit (see Guidance Note D). This section of the EIA is prepared in a stand-alone format and is updated by the project sponsor to reflect the final understandings between IFC and the project sponsor on environmental and social issues.

h) *Appendixes*

- i) List of EIA report preparers - individuals and organizations.
 - ii) References - written materials, both published and unpublished, used in study preparation.
 - iii) Record of interagency and consultation meetings, including consultations for obtaining the informed views of the affected people and local non-governmental organizations (NGOs). The record specifies any means other than consultations (e.g., surveys) that were used to obtain the views of affected groups and local NGOs.
 - iv) Tables presenting the relevant data referred to or summarized in the main text.
-

**Guidance Note C: Outline of an
Environmental Action Plan (EAP)**

1. Every IFC Category A project must have an EAP. An EAP consists of the set of mitigation, management, monitoring, and institutional measures to be taken during implementation and operation to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels. The plan also includes the actions needed to implement these measures.¹ Action plans are essential elements of EIA reports for Category A projects; for many Category B projects, the EA may result in an action plan only. In the case of a project specific environmental audit, the result may be termed a “corrective action plan”. To prepare an action plan, project sponsors and their environmental assessment team (a) identify the set of responses to potentially adverse impacts; (b) determine requirements for ensuring that those responses are made effectively and in a timely manner; and (c) describe the means for meeting those requirements.² More specifically, the EAP includes the following components:

- a) **Environmental Management:** Effective implementation of an EAP begins with sound company policies on environmental and social issues, together with senior management commitment to their effective implementation. The goal should be to continually improve performance in these areas. This section of the EAP should detail the project sponsor’s environmental and social policies and the arrangements in place to ensure these policies are implemented effectively and in a timely fashion. To support timely and effective implementation of environmental and social project components and mitigation measures, the EAP draws on the EA’s determination of the existence, role, and capability of environmental staff on site.³ If necessary,

¹ The action plan is sometimes known as a “mitigation and management plan” or “corrective action plan”.

² For projects involving rehabilitation, upgrading, expansion, or privatization of existing facilities, remediation of existing environmental problems may be more important than mitigation and monitoring of expected impacts. For such projects, the action plan focuses on cost-effective measures to remediate and manage these problems.

³ For projects having significant environmental implications, it is particularly important that the project company have an in-house environmental unit with adequate

the EAP recommends the establishment or expansion of such units, and the training of staff, to allow implementation of EA recommendations. Specifically, the EAP provides a specific description of the project company’s arrangements - who is responsible for carrying out the mitigation, management and monitoring measures (e.g., for operation, supervision, monitoring of implementation, remedial action, financing, reporting, and staff training). To strengthen the project company’s environmental management capability, most EAPs cover one or more of the following additional topics: (a) technical assistance programs, (b) procurement of equipment and supplies, and (c) organizational changes.

- b) **Mitigation and Development:** The EAP identifies feasible and cost-effective measures that may reduce potentially significant adverse environmental and social impacts to acceptable levels and promote development benefits. The plan includes compensatory measures if mitigation measures are not feasible, cost-effective or sufficient. Specifically, the EAP:
 - i) identifies and summarizes all anticipated significant adverse impacts (including those involving indigenous peoples or involuntary resettlement);
 - ii) describes - with technical details - each mitigation or development measure, including the kind of impact to which it relates and the conditions under which it is required (e.g., continuously or in the event of contingencies), together with designs, equipment descriptions, and operating procedures, as appropriate;
 - iii) estimates any potential environmental and social impacts of these measures; and
 - iv) provides linkage with any other mitigation plans (e.g., for involuntary resettlement or indigenous peoples) required for the project.
- c) **Monitoring:** Environmental monitoring during project implementation provides

budget and professional staffing strong in expertise relevant to the project.

information about key environmental and social aspects of the project, particularly the impacts of the project and the effectiveness of mitigation measures. Such information enables the project company and IFC to evaluate the success of mitigation as part of project supervision, and allows corrective action to be taken when needed. Therefore, the EAP identifies monitoring objectives and specifies the kind of monitoring, with linkages to the impacts assessed in the EA report and the mitigation measures described in the EAP. Specifically, the monitoring section of the EAP provides:

- i) a specific description, and technical details, of monitoring measures, including the parameters to be measured, methods to be used, sampling locations, frequency of measurements, detection limits (where appropriate), and definition of thresholds that will signal the need for corrective actions; and
 - ii) monitoring and reporting procedures to (a) ensure early detection of conditions that necessitate particular mitigation measures, and (b) furnish information on the progress and results of mitigation. IFC requires, at a minimum, annual monitoring reports - these reports should be submitted to the Investment Officer no later than 90 days after the end of the project company's fiscal year.
- d) **Implementation Schedule and Cost Estimates:** For all three aspects (environmental management, mitigation and monitoring), the EAP should provide (a) an implementation schedule for measures that must be carried out as part of the project, showing phasing and coordination with overall project implementation plans; and (b) the capital and recurrent cost estimates and sources of funds for implementing the EAP.
- e) **Integration of EAP with Project:** The project sponsor's decision to proceed with a project, and IFC's decision to support it, are predicated in part on the expectation that the EAP will be executed effectively. Consequently, IFC expects the plan to be specific in its description of the individual

mitigation and monitoring measures and its assignment of responsibilities, and it must be integrated into the project's overall planning, design, budget and implementation. Such integration is achieved by establishing the EAP within the project so that the plan will receive the necessary resources and supervision along with the other components.

- f) **Consultation and Disclosure:** The EAP should include the measures the sponsor will take to achieve ongoing consultation with stakeholders affected by the project as outlined in the Public Consultation and Disclosure Plan (PCDP).

**Guidance Note D: Outline of a Project
Specific Environmental Audit**

1. An environmental audit is normally a requirement for projects that involve expansion, modernization, privatization or a corporate investment program.

2. The purpose of an environmental audit is to determine the nature and extent of all environmental areas of concern (including occupational health and safety) at an existing facility or with corporate practices. The audit identifies and justifies the appropriate measures to mitigate the areas of concern, estimates the cost of the mitigation measures, and recommends a schedule for implementation of these mitigation measures. The target audience is the project sponsor and IFC staff.

3. An environmental audit focuses on two elements: (1) compliance of existing facilities and operations with relevant environmental (including occupational health and safety) laws, regulations, and IFC requirements; and (2) the nature and extent of significant adverse environmental impacts, including contamination to soils, groundwater, and structures, as a result of past activities at the existing facility.

4. An environmental audit is normally performed by an independent consultant having broad and extensive industrial experience in the areas of the environment and occupational health and safety.

5. The environmental audit report should include the following sections:

- a) **Executive Summary:** A concise discussion of all environmental and occupational health and safety areas of concern, recommended mitigation measures and their priority, the cost of mitigation, and a schedule for compliance.
- b) **Project Description:** A concise description of the project, including both past and current operations. The description should focus on project components with potential environmental and occupational health and safety concerns.
- c) **Regulatory Setting:** Details of host country, local, and any other applicable environmental and occupational health and safety laws, regulations, guidelines, and policies as they may directly pertain to the project.

- d) **Audit Procedure:** Details of the approach used to conduct the audit, including the audit protocol. This section should include specifics relating to historical research and records review, interviews, site inspections, and other aspects of the audit procedure.
- e) **Areas of Concern:** Detailed discussion of all environmental and occupational health and safety areas of concern. The areas of concern should be discussed in terms of both existing facilities and operations and contamination or damages due to past activities.
- f) **Mitigation:** Specifics on the appropriate mitigation measures and why they are necessary, and a discussion of whether the appropriate mitigation measures are readily available in the project's host country.
- g) **Costs and Schedule:** Estimates of the cost of implementing the mitigation measures and a schedule for their implementation. Cost estimates are to be based on host country conditions. Schedules should be recommended within the context of any planned capital expenditures for the facility.
- h) **Annexes:** These should include references, copies of interview forms, any details regarding the audit protocol not already included in (d), and data obtained during the audit but not included directly in (e), (f) and (g) above.

***Guidance Note E: Outline of a Project
Specific Major Hazard Assessment***

1. A major hazard assessment is required for projects which involve the transporting, storing, handling, and processing of dangerous (flammable, explosive, reactive or toxic) materials. The threshold quantities and further details on completing a major hazard assessment are provided in the World Bank's manual, *Techniques of Assessing Industrial Hazards: A Manual*, Technical Paper No. 55, Washington, D.C., 1988.

2. The purpose of the major hazard assessment is to identify the scope of the use of dangerous materials at the installation; the kind, relative likelihood and broad consequences of major incidents that might occur; appropriate mitigating measures, including safety design, operating methods and emergency procedures to prevent or control major incidents; and the schedule for implementing the mitigating measures.

3. A major hazard assessment focuses on three areas: (1) information about the project's site, operations and surroundings; (2) estimates of the impacts of potential major incidents which may occur at the installation and the surrounding area; and (3) the means to prevent or mitigate the potential incidents.

4. The assessment is normally performed by an independent consultant having extensive industrial experience in the areas of risk assessment and control of major hazards, as well as expertise in assessing the specific dangerous materials and potentially hazardous operations associated with the project. The major hazard assessment report should include the following sections:

- a) ***Executive Summary***: A concise discussion of the hazard concerns and potential consequences of a major incident, and the recommended mitigation measures and implementation schedule.
 - b) ***Project Description***: A review of the project's site, operations and employment, and the nature of the land use and distribution of the population in the vicinity of the installation.
 - c) ***Dangerous Materials***: Details relating to the specific dangerous materials and quantities present at the installation, and the hazards associated with their transportation, storage and processing.
 - d) ***Major Hazard Incidents***: A description of the potential conditions and events which could lead to a major incident, estimates of the expected impacts on the site, community and environment, and the measures taken to prevent, control or minimize the expected consequences of the incident. This section should include the criteria under which the emergency relief system was designed and an outline of the emergency response plan dealing with a major incident.
 - e) ***Management Systems***: A summary of the management systems, including staffing and training, to ensure the safe design, construction and operation of the project, as well as to maintain the effectiveness of emergency equipment and the emergency response plan.
-

**Guidance Note F: Guidance for
Preparation of a Public Consultation and
Disclosure Plan**

IFC Consultation and Disclosure Requirements

1. Project sponsors are required to meaningfully consult with stakeholders on preparation and results of the Category A EA and disclose to the public the results of the EA process. Ongoing consultation is also required during the construction and operation phases of the project. Project sponsors should consult IFC's *Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual*. The Manual provides guidance on effective public consultation and disclosure techniques for the private sector, in accordance with international good practice.

2. A Public Consultation and Disclosure Plan (PCDP) should: (i) describe local requirements for consultation and disclosure; (ii) identify key stakeholder groups; (iii) provide a strategy and timetable for sharing information and consulting with each of these groups during various phases of the project; (iv) describe resources and responsibilities for implementing the PCDP activities; and (v) detail reporting/documentation of consultation and disclosure activities.

Key Principles

3. The Plan submitted by the sponsor to the IFC must define a technically sound and culturally appropriate approach to consultation and disclosure. The goal is to ensure that adequate and timely information is provided to project affected people and other stakeholders, and that these groups are given sufficient opportunity to voice their opinions and concerns. Important considerations include:

- written and oral communications in local languages and readily understandable formats
- easy accessibility to both written information and to the consultation process by relevant stakeholders
- use of oral or visual methods to explain information to non-literate people
- respect of local traditions of discussion, reflection, and decision making
- care in assuring that groups being consulted are representative (with adequate representation of women, vulnerable groups, and ethnic or religious minorities, and separate meetings for various groups, where necessary)

- clear mechanisms to respond to people's concerns, suggestions and grievances.

Contents of a PCDP

4. The sponsor must submit to IFC a Public Consultation and Disclosure Plan (PCDP). The contents of the plan should include the following:

- a) **Introduction.** Briefly describe the project, including locational and design elements.
- b) **Regulations and Requirements.** Summarize the in-country, local requirements (i.e., policies, laws, regulations and review processes) for public consultation and disclosure related to local EIA legislation or other aspects of the project.
- c) **Review of Any Previous Public Consultation and Disclosure.** Summarize all public consultation and information disclosure undertaken to date, including:
 - the kinds of information disseminated, the forms this took (oral, brochure, report, posters, radio etc.), and the means of dissemination;
 - the location and dates of meetings;
 - a description of the individuals, groups and organizations consulted;
 - an overview of the issues discussed;
 - description of how the issues raised were responded to by the project sponsor, including an explanation if issues were not addressed; and
 - explanation of how these responses were communicated to those consulted and the wider public.
- d) **Stakeholders.** Provide an inventory of key stakeholder groups who will be informed and consulted about the project. Stakeholders are persons who are affected by or can affect the outcome of a project. These can be affected communities, local organizations, NGOs and government authorities. Stakeholders can also include politicians, commercial and industrial enterprises, labor unions, academics, religious groups, national social and environmental public sector agencies and the media.
- e) **Public Consultation and Disclosure Program Disclosure of Information:** The draft Category A EA must be made available in the

project country as early as possible and not later than 60 days prior to the proposed Board date. The sponsor should proactively disseminate a non-technical summary of the EA findings, in a form and language meaningful to those being consulted, to local stakeholders prior to consultation activities. IFC will release the Category A EA through the World Bank InfoShop as early as possible and at least 60 days prior to Board consideration (regular procedure), Closing Date (streamlined procedure), or management approval date (delegated authority).

Consultation: The PCDP should set out a program for public consultation and information disclosure during the following stages: a) during the early scoping phase, before the terms of reference for the Category A EA are finalized; b) once a draft of the Category A EA has been prepared; and c) during the construction and operation phases. This section should:

- summarize the goals of the program; and
- briefly describe the kinds of methods that will be used to communicate information to each of the stakeholder groups identified in d) above. Methods used may vary according to target audience, for example:
 - mass media, (newspapers, posters, radio, television);
 - information centers and exhibitions, with brochures, leaflets, posters, and reports available;
 - meetings and workshops; and
 - posters and other visual displays, etc.;
- briefly describe the methods that will be used to consult with each of the stakeholder groups identified in section d) above. Methods used may vary according to target audience, for example:
 - interviews with key people and groups;
 - surveys, polls and questionnaires;
 - public meetings;
 - public hearings;
 - continuous participation processes involving agents or committees in the project zone; and
 - other traditional mechanisms for consultation and decision-making.

f) **Timetable.** Provide a schedule detailing when consultation and disclosure activities will take place for each stage of the process and each stakeholder group identified.

g) **Resources and Responsibilities.** Indicate what staff and management resources will be devoted to undertaking the public consultation and disclosure program and who within the company will be responsible for carrying out these activities? IFC encourages the hiring of a Community Liaison Officer to arrange and facilitate these activities.

Effective consultation and information disclosure may require assistance from specialized consultants. The sponsor, however, should be involved in all consultations related to the project. Appointment of a Community Liaison Officer is a good way to ensure and sustain this involvement.

h) **Grievance Mechanism.** Describe the process by which people affected by the project can bring their grievances to the sponsor, in a culturally appropriate manner, for consideration and redress.

i) **Reporting.** Identify where and when the results of the public consultation and information disclosure will be reported. This should include:

- the draft EA report;
- details of the results of consultation on the draft EA, as necessary;
- annual monitoring reports submitted to IFC.