

## **Frequently asked questions on the IFC Sustainability Policy and Performance Standards and Disclosure Policy**

### **1. Are the new Performance Standards consistent with and equivalent to the World Bank's Operational Policies?**

It is important to emphasize that IFC and Bank standards are consistent and fully aligned in terms of the environmental and social objectives both institutions share. But there are differences. These differences reflect the differences between the two institutions.

IFC's new Policy and Performance Standards are tailored to the role and responsibilities of the private sector. Firms cannot take on the role of the government. They cannot pass or enforce laws. They have to operate their business in compliance with the existing laws and regulations.

That said, the Bank and IFC have worked very hard together to ensure that IFC's new standards are fully in line with the Bank's. There are no differences regarding desired outcomes for the environment, people and communities.

### **2. What is IFC's capacity to implement these new policies?**

Ultimately, implementation is the key to the success of any policy. IFC is fully committed to implementation and has a clear and specific roadmap to ensure thorough implementation. The road map includes the following:

- IFC management has been actively recruiting new staff and expertise, including in new areas of requirement for IFC as well as in quality assurance.
- Environmental and social experts are being mainstreamed into the line departments and integrated from the start into project teams.
- Investment officers are being trained on the standards.
- IFC now has an incentive program that rewards them for projects that demonstrate strong developmental impact over the long term.
- In addition, the updated Environmental and Review Social Procedure, together with internal systems upgrade, will provide a robust management tool to ensure consistent application of the policies.

Beyond these operational points, IFC has a strong institutional incentive to make the new policies work. It has staked its reputation on the belief that managing environmental and social risks and seizing opportunities available to well-managed business is the key to success in emerging markets – and ensuring it fulfills its development mandate.

### **3. How will IFC track the performance of its projects to ensure they are meeting social and environmental outcomes?**

IFC has a strong commitment to track the social and environmental outcomes as well as the overall development effectiveness of its projects. IFC is in the process of developing a set of performance indicators to help with the implementation of the Performance Standards. At the project's level, the indicators will provide added clarity to clients on social and environmental performance measures to be tracked and analyzed over time, and will reinforce the importance of outcomes that the project set out to achieve.

For IFC, these performance indicators will help IFC's supervision of portfolio projects by providing accurate and consistent measure of the project's social and environmental performance over the life of the IFC investment. These indicators will also be a key input to the Development Outcomes Tracking

System (DOTS), a new mechanism for IFC to track information on IFC's development effectiveness over time.

IFC plans to report annually on the development effectiveness of its investments and technical assistance programs in aggregate, starting with the first report covering 2006. IFC's development effectiveness reporting will include information regarding the focus of IFC's investments and technical assistance activities, the results of those activities and the steps IFC is taking to enhance its development contribution. IFC will report on its performance as a whole and provide results for its various areas of activity. This information will be made publicly available on IFC's Web site.

#### **4. How do the Sustainability Policy and Performance Standards address company compliance with international Human Rights Law?**

Rather than having a free-standing Performance Standard on human rights, IFC chose to strengthen its support of human rights at the project level with Performance Standards on project-related issues. At the project level, the most tangible connection between projects and human rights can be made in the areas of labor and working conditions and project's use of private or public security personnel.

Performance Standard 2 reinforces workers' rights. Performance Standard 4 addresses potential issues associated with provision of security. Performance Standard 7 refers to the need to respect Indigenous People's human rights. In addition, the Performance Standards require the client's use of grievance mechanisms to enable affected communities to express their complaints and grievances directly to the project and to obtain redress – these support the notion of “administrative” or “procedural human right”, which is a human right concept. Finally, the first Performance Standard points to the need to assess project impacts on those disadvantaged by virtue of their race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

IFC has not made reference to human rights conventions but requires clients to adhere to national law, including those reflecting international agreements. International human rights law places requirements on governments, not on business directly.

#### **5. How do the new Performance Standards address biodiversity and do they include a list of “no-go zones” for projects that may affect critical biodiversity?**

IFC has created an entirely new Performance Standard that requires clients to take a comprehensive approach to biodiversity and natural resource management. The new standard addresses the cumulative nature of the requirements as the project deals with increasingly critical biodiversity, from modified habitat and natural habitat, to critical habitat and legally protected areas designated because of their biodiversity. The definition of critical habitat has been substantially strengthened, and the requirement in respect of critical habitats is a measurable standard based on science.

The effect of these changes is that some invasive project activities proposed in areas of high biodiversity will not meet the requirements of the Performance Standard, resulting in IFC's decision not to finance the project (no-go decisions). Other benign project activities may be permitted in areas of high biodiversity if the specific requirements are met. IFC believes that this approach based on a close analysis of proposed project activities and the project areas will result in an appropriate decision to support or not support projects, consistent with IFC's mission to finance sustainable development projects in emerging markets. In order to illustrate IFC's decision-making process around biodiversity issues, leading to “go” or “no-go” decision, a “decision tree” has been prepared and will be included in the Guidance Notes.

#### **6. What actions will IFC take if a client is not implementing the requirements under the new Performance Standards?**

IFC requires clients to covenant the Action Plan in the legal agreements with IFC in order to secure implementation of its proposed measures and actions identified during the Social and Environmental Assessment process. The client must also to agree to operate the project in a manner consistent with the

Performance Standards. In the event of noncompliance by the client, IFC will work with the client to bring it back into compliance. IFC will consider appropriate remedies if the client fails to reestablish compliance.

#### **7. How will the IFC ensure that Indigenous Peoples suffer no or little adverse impact?**

IFC requires that clients avoid adverse impacts of projects on communities of Indigenous Peoples, or when avoidance is not feasible, minimize, mitigate or compensate for such impacts in a culturally appropriate manner. Clients must design and engage in a process of free, prior, and informed consultation with Indigenous Peoples. IFC will verify and document prior to the launch of the project that the process engaged in by the client has resulted in broad community support.

If the project involves adverse impacts on Indigenous Peoples customary or traditional lands under use, or in the case of a potential relocation of Indigenous Peoples, a higher standard will apply, and the client will have to enter into a process of good faith negotiation with the Indigenous Peoples. The client will document the successful outcome of such negotiations and the informed participation of the Indigenous Peoples. In connection with the commercialization of Indigenous Peoples' cultural resources and knowledge, the client will inform the Indigenous Peoples of their rights under national law; the scope and nature of the proposed commercial development; and the potential consequences of such development. Before proceeding with the commercial development, the client will enter into good faith negotiation in a manner described above., and provide for fair and equitable sharing of benefits.

#### **8. What do IFC standards on involuntary resettlement provide for people without land titles?**

IFC standards classifies displaced persons in the following way: 1) those who have formal legal rights to the land they occupy; 2) those who do not have formal legal rights to land, but have a claim to land that is recognized or recognizable under the national laws (including customary or traditional rights); and 3) those who have no recognizable legal right or claim to the land they occupy. Before displacement, a census will take place which will establish the status of the displaced persons.

The people with a claim to land – ie categories 1) and 2) - will be offered by the client replacement property of equal or higher value, or cash compensation at full replacement value. The people with no title and no legal claim to land will still be offered by the client security of tenure elsewhere and adequate housing, so that they do not have to face the risk of forced eviction in the future. The client is required to provide opportunities for all displaced people to restore the livelihood of all displaced. Through these compensation and assistance program, IFC aims to help the resettled people improve, or at least restore, their standard of living.

#### **9. How will the general public and local communities be able to learn of a project that IFC is considering for financial support?**

The new policy framework establishes new requirements and procedures for disclosure by both the IFC and its clients. Together, these will mean that the public and affected communities will have opportunities to learn of pending projects.

Clients must provide to communities that may be affected by risks or adverse impacts from the project access to information on the purpose, nature and scale of the project, the duration of proposed project activities, and any risks to and potential impacts on such communities. If the client has undertaken a Social and Environmental Assessment, this disclosure should occur during the social and environmental assessment process before the project construction commences, and on an ongoing basis. The client must also publicly disclose the S&EA document.

If affected communities may be subject to risks or adverse impacts from a project, the Performance Standards also require clients to undertake a process of consultation in a manner that provides the communities with opportunities to express their views on project risks, impacts, and mitigation measures, and allows the client to consider and respond to them. For projects with significant adverse impacts, the Performance Standards require to clients to follow a more exacting process of free, prior informed

consultation and the informed participation of affected communities, which must be fully documented. And IFC will determine whether there is broad community support for the project.

After the client has met all its obligations for disclosure and consultation, IFC then discloses on its website project information for a 60-day public comment period for projects with significant adverse impacts that are determined to be Category A projects before its board considers approval of the project. For projects with limited or no impacts, the disclosure period is 30 days.