A Year of Implementing the IFC Performance Standards

Community of Learning

May 2007
Board’s Comments on PPS in 2006

- How will IFC implement the PPS and ensure consistent implementation?
- What will be the cost of the new policy framework implementation to IFC and clients?
- How will IFC ensure that the new policy framework will not slow down IFC’s business?
- How will we know it’s working?
- How will IFC help clients and external stakeholders in need of information and assistance?
Management System

CES Quality Assurance System

- New Environmental and Social Review Procedure (ESRP) for implementing the PSs
- Environmental and Social Review Document (ESRD) is the electronic interface between the ESRP and the project
- Internal FAQ on PS related questions
- Peer Review Meetings
- Monitoring and Reporting
- Quality control on ESRD
Internal Training
- CES ran a total of 42 sessions—23 in HQ and 19 in the regions between December 2005 to April 2007
- Thematic training on “Labor and Working Conditions” and “Security Personnel Requirements”

External Training
- 9 sessions for Consultants & Clients in 9 countries (Indonesia, China, Hong Kong, Russia, Turkey, India, Kenya, South Africa, and Ghana)
- Equator Principles Financial Institutions and project developer training through licensed trainers
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Commitment (in $millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY03 Actual</td>
<td>3,852.0</td>
</tr>
<tr>
<td>FY04 Actual</td>
<td>4,753.0</td>
</tr>
<tr>
<td>FY05 Actual</td>
<td>5,372.9</td>
</tr>
<tr>
<td>FY06 Actual*</td>
<td>6,702.6</td>
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<tr>
<td>FY 07 Target*</td>
<td>7,499.9</td>
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<tr>
<td>FY 07 Forecast*</td>
<td>8,019.8</td>
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</tbody>
</table>

*including CGF Trade Finance
The CES processing cost as percentage of total IFC processing cost for all project categories remained almost the same as before the application of the new PSs.

At the same time the nominal cost of E&S due diligence/processing cost in category “B” projects increased almost by 30% in FY 2007.
Project Processing Time

- Average dates between approval of Project Data Sheet - Early Review and Board Approval.
- Does not necessary reflect appraisal time
Preliminary Observations on Internal Processing Cost / Time

- Increase in internal processing cost attributed in part to more due diligence on Category B projects
- Internal processing time seems consistent with the past but data needs to be consistently tracked moving forward
- Client cost of compliance will be through review of the client cost of the Action Plan
  - Divided into mitigation cost to be incurred regardless of IFC financing vs. cost of meeting IFC requirements?
- Will also carry out client perception survey on cost of compliance
- FY07 data will be our baseline
- Additional data to be available in November 07
### PS Application to Projects

9 projects applied PPS prior to April 30, 2006  
(Category B: 6 projects, Category FI: 3 projects)

<table>
<thead>
<tr>
<th>Category</th>
<th>Screened against PPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>3</td>
</tr>
<tr>
<td>Category B</td>
<td>39</td>
</tr>
<tr>
<td>Category C</td>
<td>16</td>
</tr>
<tr>
<td>Category FI</td>
<td>39</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>97</strong></td>
</tr>
</tbody>
</table>
Which PS Triggered?

- Total of 42 projects (excluding Category C & FI projects)
- 52% of projects (22) engaged external experts
- 57% of projects (24) committed to establish new S&E management systems
- Helpful guidance:
  - Human Rights Impact Assessment Guidance for road testing (Forthcoming - June 2007)
Instances of FPIC/BCS application

<table>
<thead>
<tr>
<th>Category</th>
<th>Screened against PPS</th>
<th>FPIC/BCS</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Category B</td>
<td>39</td>
<td>5</td>
<td>13%</td>
</tr>
<tr>
<td>Category C</td>
<td>16</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Category FI</td>
<td>39</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>97</td>
<td>8</td>
<td>-</td>
</tr>
</tbody>
</table>
FPIC & BCS

- The **client** conducts free, prior and informed consultation, and enabled the informed participation of affected communities

- **IFC** ascertains the level of support and dissent among the affected communities for the project
  - Looking at all types of expressions – formal, informal, evidence of specific agreements, keeping commitments, etc.
  - Defining affected communities: within project’s area of influence, those most directly affected both positively and negatively
    - Identified through stakeholder identification process

- Objections by some members of the affected communities will not necessarily negate BCS

- IFC has procedural guidance on FPIC/BCS
Reflections on FPIC/BCS So Far

- Good written record of client disclosure and consultation is crucial, including record of follow up showing client response to concerns
- Grievance mechanisms – structure, procedure, and application – can influence BCS
- Opinion polls have limited value; perception surveys may be a better option
- Outreach and community development programs do not necessarily indicate BCS
- BCS involves IFC’s judgment call – a call made jointly by Director of CES and Director of Investment Department
PS 2
Labor and Working Conditions

- Detailed training on labor issues in IFC investment cycle
- Internal procedure and tools established
- Convened a Labor Advisory Group and sought advice
- 55% of projects (24) with actions plans in the labor area
- No experience for detailed labor audits yet
- Ongoing engagement with ILO in the project and TA areas
- Ongoing engagement with labor unions on project issues
- Helpful guidance: Good Practice Note on Freedom of Association and Collective Bargaining (Forthcoming - June 2007)
PS 3 Pollution Prevention and Abatement

- 56 EHS Guidelines finalized on April 30, 2007
  - Technical reference documents for good international industry practice for EHS performance
  - Establish IFC’s expectations for managing industrial EHS impacts in support of aspects of PS2, PS3, PS4, and PS6.
  - They form part of the Equator Principles, specifically Principle 3
  - 7 more to be published shortly

- GHG emissions quantification over 100,000 tons/year
  - So far, 8 projects triggered the quantification requirement
PS 4 Community Health, Safety and Security

- Detailed training on use of security personnel
- 64% of projects hired Security Personnel
  - Of which 26% of projects developed a Security Personnel Management Plan
- Helpful Guidance: Guidance on Community Health (Forthcoming - June 2007)
PS 5 Land Acquisition and Involuntary Resettlement & PS 6 Biodiversity Conservation

PS 5
- 18 projects with physical and/or economic displacement out of 42 projects
  - Physical only: 2% (1)
  - Economic (loss of income or livelihood) only: 19% (8)
  - Both physical and economic: 21% (9)
- Of the 18 projects, private sector-managed resettlement vs. Gov’t-managed resettlement:
  - Carried out solely by the government: 6%
  - Carried out solely by the private sector: 39%
  - Carried out by the government in collaboration with the private sector: 44%
  - Resettlement planned in the future & terms to be negotiated: 11%

PS 6
- No project in critical natural habitat or legally designated areas
PS 7 Indigenous Peoples & PS 8 Cultural Heritage

PS 7
- No project with “good faith negotiation” requirement
- No project with commercialization of IP cultural resources

PS 8
- No projects in critical cultural heritage area/ legally protected cultural heritage area
- No instance of commercialization of cultural heritage
IFC’s FI Investments

- New Policy and procedure for FI projects
- Focus on the Social and Environmental Management System
  - SEMS/evidence of S&E procedures now a condition of disbursement
- Timebound SEMS Plan or Action Plan detailing Supplemental Actions
- Applicable Performance Requirements
  - IFC Exclusion List, applicable national S&E laws, IFC Performance Standards
- Analysis of risk based on the IFC financed portfolio, type of FI business, tenor of financing, sectors of operation, client capacity etc
- The FI portfolio with high Environmental and Social risks are required to apply PPS
  - Out of 39 FI Projects, 6 projects (15%) applied the Performance Standards
- Moving to e-learning, customizing SEMS, guidance notes for clients
In addition to specific guidance supporting the PS implementation:

- *BTC Lessons of Experience* (Sept 2006)
- *External Monitoring of the Chad Cameroon Pipeline* (Sept 2006)
- *Good Practice Note on Animal Welfare* (Oct 2006)
- *Banking on Sustainability* (Jan 2007)

- Updated Guidance Notes (May 2007)
- Updated Environmental and Social Review Procedure (ESRP) (May 2007)
IFC’s Outreach Activities and Sharing of Learning

- Outreach activities promoting the Equator Principles in emerging markets
  - Remaining European banks, BRICs countries, etc.
- Worked with the OECD on the Common Approaches for the export credit agencies
- Sharing of Learning: Community of Learning Event (May 14-16, 2007)
  - IFC’s sharing of its learning from PS application with MFIs, BFIs, ECAs, and EPFIs
  - Expect to maintain relationship with these financial institutions on an ongoing basis
- Broader convergence of standards among international financial institutions
An Update on the Equator Principles

- Based on IFC’s Performance Standards and Environmental, Health and Safety Guidelines
- First announced in June 2003 with ten banks
- Relaunched as “EP2” in July 2006, referring to the new IFC standards
- Now 51 financial institutions, including 6 in Latin America
  - Many EPFIs have taken Performance Standard training
- Around 88% of emerging markets project finance refers to Equator
  - Source: Infrastructure Journal
Next Steps

- Soliciting ongoing comments on the Performance Standards, Guidance Notes, and observations on implementation through website [www.ifc.org/enviro](http://www.ifc.org/enviro) (April 2007)
- For FY08, new e-learning program supplemented by periodic face-to-face training
- More outreach to emerging market banks who wish to improve their E&S performance; outreach to other segments of the financial sector beyond banking
- Ongoing data collection and analysis
  - Data on client cost of compliance
  - More comprehensive performance indicators
- Will return to the Board with 18 month implementation report in November