IFC's Sustainability Framework: From Policy Update to Implementation

International Finance Corporation
World Bank Group

An electronic version of this publication and a free iBook version are available at www.ifc.org/LOE-SustFramework.

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Foreword

It is with pleasure that I present this publication on IFC's Sustainability Framework, which articulates our commitment to sustainable development and transparency. The Performance Standards are a vital part of the Framework and address a range of environmental and social risks and opportunities faced by the private sector. These Standards are referenced by a large number of companies and institutions as a comprehensive, good practice framework for managing risk and doing business in a sustainable way.

This publication highlights key environmental and social issues of current and emerging importance, including climate change, business and human rights, supply chain management, and biodiversity and ecosystem services. It discusses implementation challenges in the financial as well as the non-financial sectors, and summarizes some of the lessons learned through IFC's recent review and update of its Sustainability Framework. IFC benefited from the knowledge and expertise of hundreds of stakeholders from the private sector, civil society, academia, government, and international organizations, among others, during the 18-month consultation process. This process – and the wide range of participants – is described in more detail in the Annex. We are grateful for the many comments and suggestions provided. Broad stakeholder input has helped us make substantive changes and clarifications to the Performance Standards while ensuring that they remain relevant and practical tools for a wide range of companies operating in complex and challenging environments.

The review and update process was coordinated by IFC's Environmental, Social and Governance Department, in collaboration with IFC's Corporate Relations Department. This undertaking was made possible through the work of a large team of IFC staff and with contributions from colleagues from the World Bank and MIGA.

I would like to thank Rachel Kyte, my predecessor as Vice President, Business Advisory Services, who played a critical role in guiding the process and securing support from a very diverse stakeholder group. The team also received ongoing engagement and counsel from the World Bank Group's Executive Directors and their Advisors.

Nena Stoiljkovic
Vice President
Business Advisory Services
December 2012

In an era of rapidly depleting and finite resources, businesses and society have the opportunity to reframe how value is created and how development can act as a driver for sustainable economic growth.

Firms increasingly acknowledge the impacts of environmental and social sustainability on their long-term strategic choices, profitability, and risks to their success.

Sustainability is good for business and for people and for the environment, and it is an important element in poverty reduction.

IFC's Sustainability Framework: From Policy Update to Implementation

In the years since IFC's Sustainability Framework[1] was developed, there has been continued progress in the context in which companies operate—and around how doing business in a sustainable way brings value to a firm. Environmental and social issues are increasingly material to businesses doing well in the short and long term.[2]

As investors, organizations, and policy-makers shift the way they think about sustainability, they are tapping into the private sector's ability to find innovative ways to improve environmental, social, and governance performance. Businesses can act on sustainability concepts to capitalize on opportunities and to address risks, both in the short and long term. To improve financial margins, businesses can operate in a way that conserve resources, respect stakeholders and improve relationships (workers, employees, and communities), and manage and/or mitigate risks to business success. To position themselves for the future, firms must consider their strategic choices to ensure continued access to important factors of production (e.g., water), capital (e.g., investor confidence), and productive workers (e.g., best employees). In a financially volatile and environmentally climate changed world, sustainable growth is essential for the long-term success of business.

IFC SUSTAINABILITY FRAMEWORK

The Sustainability Framework, adopted in 2006 and updated in 2012, consists of the Policy on Environmental and Social Sustainability, which describes how IFC implements its commitment to sustainable development; the Performance Standards, which define clients' roles and responsibilities in relation to environmental and social risk management; and the Access to Information Policy, which defines IFC's institutional obligations in relation to transparency and accountability.

[1] www.ifc.org/sustainability

[2] IFC's most recent client survey revealed that 93 percent of clients receiving environmental and social support found it helped improve their stakeholder relationships, strengthen their brand, and manage their risks.

IFC PERFORMANCE STANDARDS

PS1 - Assessment and Management of Environmental and Social Risks and Impacts

PS2 - Labor and Working Conditions

PS3 - Resource Efficiency and Pollution Prevention

PS4 - Community Health, Safety and Security

PS5 - Land Acquisition and Involuntary Resettlement

PS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources

PS7 - Indigenous Peoples

PS8 - Cultural Heritage

Sustainability Framework Review and Update

IFC seeks to contribute to sustainable development and economic growth in emerging markets by helping private sector firms adopt good environmental and social practices that are implementable for a wide range of companies around the world. The Sustainability Framework articulates IFC's strategic commitment to sustainable development and is an integral part of its approach to risk management. At its core are eight Performance Standards, addressing a range of environmental and social issues faced by the private sector. The Performance Standards are designed to help clients avoid, mitigate, and manage risk as a way of doing business in a sustainable way. They are considered by many to be "best practice" in environmental and social management—most directly for the private sector, though they now are referenced by public sector agencies as well (e.g., European Development Finance Institutions).

Originally adopted in 2006, the Sustainability Framework was recently updated following an 18-month consultation process with stakeholders around the world. Launched on September 8, 2009, the intention of this review and update was to learn from the experiences of implementation of the Performance Standards and to adapt them as necessary to reflect the evolution in good practice for sustainability and risk mitigation over the preceding years.

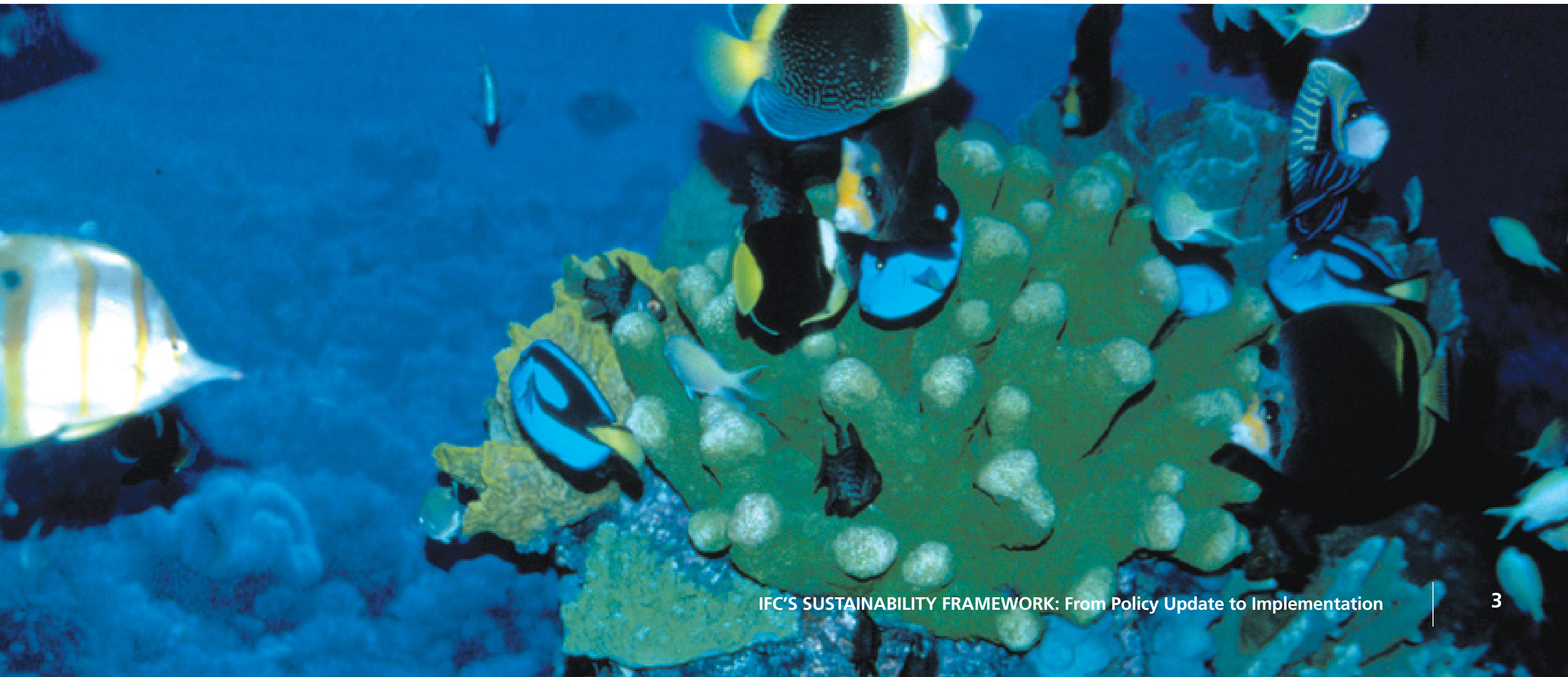
In the review of its Sustainability Framework, IFC sought to balance the incorporation of evolving themes with a practical view of what could be implemented in a complex and sometimes challenging business context, and across a wide range of industries. The consultative process was enhanced by the active participation of a wide range of stakeholders—including companies, financial institutions, business associations, trade unions, civil society organizations, community representatives, think tanks, multilateral and bilateral financial institutions, United Nations agencies, and governments—which was essential to help IFC find the right balance.

Broadly speaking, the comments fell between two ends of a spectrum of opinions. Some stakeholders, including many nongovernmental organizations (NGOs) and some developed countries, supported raising standards, both in terms of thematic coverage and methodological requirements. Conversely, others, including many companies and some government representatives, cautioned not to raise standards too high, as excessively stringent requirements could make meeting the Performance Standards too costly and too difficult, particularly for small and medium sized enterprises operating in challenging environments. Many companies were interested in moving the sustainability agenda forward, but asked IFC to provide more clarity regarding the requirements, particularly in relation to companies' vis-à-vis governments' responsibilities. IFC attempted to balance these competing considerations, to produce a Sustainability Framework that sets an aspirational yet achievable private sector standard.

IFC benefited from the contributions and experiences of a wide range of groups during the consultation process, and the revised and updated Sustainability Framework is a stronger and more comprehensive set of standards as a result. IFC believes that this systematic engagement not only produced a better quality product, but also helped to generate understanding and recognition among different stakeholders of the diversity of perspectives and experiences on sustainability issues. It was IFC's aim that a robust and credible engagement process would enhance not only the final product itself, but also broaden support for sustainability considerations at the policy level, and collaboration for their application at the implementation level. This extensive consultation process also recognized the fact that the Performance Standards have become recognized as an international benchmark and that IFC is therefore well served by a comprehensive engagement with stakeholders.

This Publication

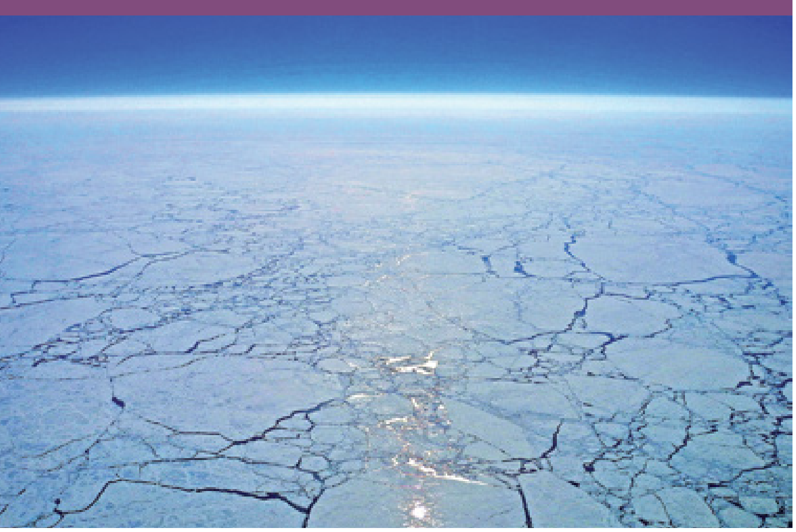
This publication summarizes some of the key emerging issues in sustainability, and highlights valuable lessons learned from experience in applying sustainability principles. The following sections attempt to capture the results of the review and update process, from the challenges of addressing emerging issues in the Performance Standards to the practical application of these principles across sectors in diverse circumstances. Accordingly, it focuses on key themes arising from the recently completed consultation process, and then highlights challenges moving forward in implementing sustainability standards. The Annex then includes additional details on the consultation process itself, from technical and logistical details to an overview of the key changes to the standards.



Sustainability in Principle: Current and Emerging Environmental and Social Issues for Stakeholders

In engaging with a wide range of stakeholders throughout the consultation process, it was possible to take note of some pressing sustainability issues for business, including climate change, business and human rights, supply chain management, gender issues, stakeholder engagement, Indigenous Peoples, and biodiversity and ecosystem services. The revised Sustainability Framework generally integrates these topics as cross-cutting themes in a more robust and explicit manner throughout, rather than developing new and standalone standards related to these issues.[3] The emphasis is on clarifying existing principles and practices (with only limited material changes) and on providing better guidance on both IFC's and clients' roles and responsibilities in relation to different types of projects and business activities.

The following summaries introduce the seven current and emerging themes, with brief discussions of their importance to sustainable development and business success, and an indication of how they were ultimately reflected in the revised Sustainability Framework.



Climate Change

Climate change is one of the thematic areas in which the evolution of the external context surrounding the Sustainability Framework has been the most rapid.[4]

Climate change—including changes in temperature, rainfall patterns, sea level, and storm conditions—is a significant development challenge, which disproportionately affects the poorest countries. It also represents an area of opportunity for companies, particularly in terms of new markets and potential cost reductions gained through innovation, enhanced resource efficiency, and adaptation measures. Many companies are developing climate change strategies, assessing their internal and supply chain emissions, and examining their approach to climate change throughout their operations and value chain. Some are also attempting to address cumulative aspects of these changes, in conjunction with their project impacts.

[3] Additional and more detailed guidance has been incorporated in the Guidance Notes to the Performance Standards.

[4] Among the many external drivers of the climate change agenda since the launch of the 2006 Performance Standards are the Stern Report providing the first economic analysis of global warming (2006); the award of the Nobel Peace Prize to the Intergovernmental Panel on Climate Change and Al Gore for their efforts to address climate change (2007); the negotiations between donors and the World Bank Group to create the first and largest fund to address climate change (Climate Investment Fund) (2008); and the COP15, 16 and 17 UN Climate Change Conferences (2009, 2010, and 2011, respectively). Just subsequent to the January 1, 2012, effectiveness date of the revised Sustainability Framework, the Rio Earth Summit (Rio+20) was organized to address "green economy" in the context of poverty eradication and sustainable development (2012).

Climate change was a central issue raised throughout the Sustainability Framework review and update process as well. Many private sector participants already address resource efficiency as inherently good business in a world increasingly resource constrained. However, companies face numerous challenges in attempting to balance low-carbon economic growth with demands for low-cost energy resources. To do so, they require access to clean, modern, and reliable energy services—even while operating in some of the world's most challenging markets. In other areas, the impact of climate change, together with competition between food, fuel, and fiber (impacting land use and drawing on similar resources, such as water), coupled with the impact of climate change on resource availability, means that resource efficiency is even more important than before. Handling these challenges requires not only a technical solution at the firm level, but also a recognition of the social dimensions and impacts on communities and society.

IFC is aware of these competing contexts, and attempted to craft a balanced response in the Sustainability Framework (e.g., while still working with conventional energy sources, the Performance Standards include incentives for companies to use resources efficiently[5]) and to identify the risks and impacts associated with a changing climate and adaptation opportunities. An increased focus on energy efficiency specifically targets greenhouse gases (GHG) by considering options to eliminate or reduce the intensity of emissions, and also aims to help clients run more cost-effective operations.[6] To help companies prepare for future energy challenges, and to better understand their own carbon footprints, the Performance Standards require companies to collect and analyze data on their emissions. Gathering this information is a critical step in allowing clients to compare their GHG emissions with their peers and to create a benchmark for improving emissions levels in the future.

Business and Human Rights

The external environment around business and human rights has also undergone a tremendous evolution in a short period of time. Since the launch of the 2006 Sustainability Framework, much work has been done to articulate the responsibility of businesses in relation to human rights, most prominently by Professor John Ruggie, UN Special Representative of the Secretary General (SRSG) on Business and Human Rights.[7] As a result of this and other developments, there is an emerging global consensus that the private sector has a responsibility to respect human rights, independently of state duties to respect, protect, and fulfill human rights. This private sector responsibility can be met by acting with due diligence to avoid or address adverse human rights impacts from business operations. Professor Ruggie's articulation of the business responsibility to respect human

Climate change

Business and human rights

Supply chain management

Gender issues

Stakeholder engagement

Indigenous Peoples

Biodiversity and ecosystem services

[5] These new resource efficiency concepts can both mitigate environmental impacts and deliver significant savings for companies. Flexibility has been built into the mitigation systems as well, offering clients many ways to address these issues (e.g., by requiring that the generation and release of emissions be managed through a combination of efficient energy use, process modification, selection of lower-emission fuels, and the use of emissions control techniques).

[6] The Performance Standards lower the GHG reporting threshold requirement from 100,000 tons to 25,000 tons CO_2-equivalent. Under this new threshold, about 55 percent of non-financial real sector projects in IFC's portfolio will report on GHG emissions. This is expected to capture 90-95 percent of all GHG emissions generated by projects that are directly financed by IFC.

[7] On June 18, 2008, the Human Rights Council unanimously "welcomed" the "Protect, Respect and Remedy" Framework proposed by the Special Representative in his final report under the 2005 mandate. This policy framework comprises three core principles: the State duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights, which means to act with due diligence to avoid infringing on the rights of others; and the need for greater access by victims to effective remedies, judicial and non-judicial. On June 16, 2011, in an unprecedented step, the Human Rights Council unanimously endorsed the "Guiding Principles on Business and Human Rights" for implementing the UN "Protect, Respect and Remedy" Framework, providing—for the first time—a global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity (see UN resolution A/HRC/RES/17/4).

rights—and the wide uptake and support of this approach globally—coincided with and informed IFC's Sustainability Framework review and update process.

The consultation process also confirmed that human rights are now a major sustainability issue for businesses and their stakeholders. Corporations increasingly acknowledge the importance of greater integration of human rights relevant to business into corporate strategy and policy. Some have already experienced the negative consequences of neglecting this issue, while others have benefited from taking relevant human rights risks into consideration at an early stage. The most consistent message from these companies and other interested parties, such as financial institutions, is the need for greater clarity and consistency regarding expectations, and practical guidance on implementation at the operational level.

Reflecting these developments, the revised Sustainability Framework expresses, in both the Sustainability Policy and in Performance Standard 1 (Assessment and Management of Environmental and Social Risks and Impacts), an explicit commitment to support the responsibility of the private sector to respect human rights.[8] Performance Standard 1 also supports due diligence and subsequent integration of human rights concerns into internal processes, as underscored by the SRSG, by recognizing that project risk management includes management of environmental, social, labor, and other related risks.

More broadly, IFC's approach to human rights relies on the linkages with environmental and social considerations. IFC's comprehensive framework for addressing social impacts and stakeholder engagement largely covers human rights relevant for business, either implicitly or explicitly. The multiple dimensions of rights in economic, social, and cultural areas (e.g., labor rights, health/pollution prevention, involuntary resettlement, cultural heritage) are well addressed in the Performance Standards. The Standards also cover aspects of rights in civil and political areas that are relevant for business (e.g., community engagement, security personnel, grievance mechanisms, Indigenous Peoples).

In the review and update process, several gaps were addressed as new requirements in the Standards due to their relevance for business activities in all sectors and regions.[9] These include updates to address human trafficking, forced evictions, and community access to cultural heritage, among others.

[8] Performance Standard 1 also recognizes that, in limited high risk circumstances, it may be appropriate for clients to complement the environmental and social risks and impacts identification process with specific human rights due diligence as relevant to the particular business.

[9] Other gaps are more relevant to implementation issues and have been addressed in the accompanying Guidance Notes to the Performance Standards. Still other sector-specific issues fall more directly within the applicable World Bank Group industry Environmental, Health, and Safety Guidelines.

Supply Chain Management

Concerns related to supply chain management encompass a wide range of environmental (e.g., biodiversity and natural resources) and social (e.g., labor) issues, and consequently have significant development and business impacts. Moreover, the complexities of supply chain management are evolving rapidly, and companies are increasingly both attempting and expected to be more attentive to these concerns.

Poorly managed supply chains can threaten long-term business success and market viability in developing countries. Yet there are real limitations to a company's ability to address underlying environmental and social issues in its supply chain—the degree of leverage or control that a company has on its supply chain depends on their position in the supply chain and on the willingness and ability of supply chain participants to make changes. Applying strict standards to the extended supply chain in all sectors and regions is not feasible—a more considered and flexible approach is needed. The Performance Standards focus on the highest risk issues in the supply chain—child and forced labor, significant safety issues, and the degradation or conversion of natural or critical habitats.

As part of their environmental and social management systems (ESMS), clients are required to develop steps to continuously screen and monitor for supply chain risks in circumstances where they are likely to encounter such risks, usually in conjunction with certain sectors or in certain geographic locations. When there is a high risk, companies will attempt to remedy the problem, working with their suppliers to change these behaviors or shifting their purchasing to alternate suppliers.

Gender Issues

In recent years, women's circumstances and opportunities have improved in many ways and in many countries, yet significant gaps remain. The World Bank's 2012 World Development Report *Gender Equality and Development* maintains that closing such gaps is both an important core development objective and "smart economics": "Greater gender equality can enhance productivity, improve development outcomes for the next generation, and make institutions more representative."[10]

In updating the Sustainability Framework, gender requirements were strengthened and made more explicit. The Performance Standards address potential gender-differentiated aspects of impacts and opportunities, as well as gender-responsive consultation processes. They also highlight specific areas in which the private sector plays a unique role. Companies have significant control over the physical working environment of the project, even in difficult country and cultural situations, and should protect workers from non-discrimination in areas such as working conditions, terms of employment, avoidance of harassment, and in cases where retrenchment is unavoidable. Clients are also expected to take measures to avoid employing trafficked persons.[11] Gender is an important aspect when communities might be or have been exposed to communicable diseases as well. This can have a higher impact on vulnerable groups which may include women in their roles as caretakers.

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[10] *About WDR 2012: Gender Equality and Development.* http://go.worldbank.org/F45LWEFBI0.

[11] Performance Standard 2 includes an explicit statement against employing trafficked persons (paragraph 22) and states that women and children are particularly vulnerable to trafficking practices (footnote 13).

Stakeholder Engagement

Stakeholder engagement aims to help companies establish and maintain constructive relationships with a variety of external stakeholders over the life of the project. This is critical from both business and development perspectives. For the private sector, regular engagement and exchange with stakeholders facilitates understanding and management of the external operating context—avoiding or minimizing risks and impacts to people and the environment contributes to creation of a positive enabling environment. It also plays an important role in helping prevent environmental degradation and to ensure that the costs of economic development do not fall disproportionately on the poor and vulnerable.

An effective engagement process allows the views, interests, and concerns of different stakeholders—particularly local communities directly affected by a project—to be heard, understood, and taken into account in project decisions and in determining development benefits. As such, stakeholder engagement is an integral part of an effective and adaptive environmental and social management system.

Nonetheless, stakeholder engagement in general, and consultations with Affected Communities in particular, has proven to be a challenging area for many clients. In response, the revised Sustainability Framework defines key principles and provides greater clarity and guidance for clients on how to engage systematically with stakeholders. Throughout the Performance Standards, IFC clarified requirements for stakeholder analysis and attention to different stakeholder groups' views and concerns, including more attention to differentiated needs based on aspects such as age, gender, poverty, or vulnerability, where relevant.

The revised Sustainability Framework also clarifies language regarding the establishment of grievance mechanisms. This approach ensures that stakeholders are informed of clients' grievance mechanisms; community grievance requests are documented; and the design of the grievance mechanism channel is culturally appropriate, taking into account community suggestions. Importantly, to the greatest extent possible, grievance mechanisms should build on existing mechanisms for conflict resolution and grievance redress, rather than establishing parallel systems. By integrating stakeholder engagement and grievance mechanisms into their own management and communications systems, companies can promote a positive and predictable project operating environment, while simultaneously protecting natural resources and providing benefit for local communities.

Indigenous Peoples

There is a growing global recognition of Indigenous Peoples' right to Free, Prior, and Informed Consent (FPIC) in development-related decision making. A wide range of global organizations and reference documents include the idea of consent,[12] and on September

[12] The recommendation to adopt "consent" as a guiding principle was made both by the World Commission on Dams (2000) and the Extractive Industries Review (2004). It is also included in the International Labor Organization Convention 169, adopted in 1989, which 19 countries have ratified so far and incorporated into their domestic legislation.

13, 2007, the UN General Assembly endorsed the principle of FPIC through the UN Declaration on the Rights of Indigenous Peoples.[13] Several multilateral development banks and other institutions subsequently adopted language incorporating the principle of consent, including European Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, and International Fund for Agricultural Development.[14]

During the consultation process, IFC received a significant number of recommendations related to the adoption of FPIC for Indigenous Peoples. There were both political and conceptual arguments for adopting the principle, and most recommendations argued in favor of adoption. In particular, representatives of Indigenous Peoples pointed to the symbolic importance of the term "FPIC," which they associate with recognition of their status as communities with collective rights recognized by the international community. Industry groups and clients ultimately were supportive in general, but stressed the need to limit this to potentially significant impacts on Indigenous Peoples, and to define FPIC clearly and to provide operational guidance on implementation.

Ultimately, in recognition of the unique vulnerabilities of Indigenous Peoples, IFC's Performance Standard 7 (Indigenous Peoples) was revised to require FPIC in certain circumstances directly and adversely impacting Indigenous Peoples.[15] FPIC is part of the stakeholder engagement hierarchy introduced in Performance Standard 1, and builds upon and expands the process of Informed Consultation and Participation (ICP). It is established through Good Faith Negotiation (GFN) between the company and indigenous community.

As defined for IFC's project and clients in Performance Standard 7, FPIC refers to the combination of a mutually accepted and documented process of culturally appropriate negotiation between the company and appropriate institutions representing Indigenous Peoples and evidence of agreement between the parties as the outcome of the negotiations. In IFC's view, it is not possible to achieve the outcome without the process, and it is not inevitable that a legitimate process will lead to an outcome of agreement.

[13] The original vote for the Declaration at the UN included four countries votes against; all of these countries have since endorsed the document.

[14] Nonetheless, a review of existing global standards and practices on consent revealed that none of the institutions that have adopted FPIC have interpreted this to mean granting veto power to Indigenous Peoples over development projects, or requiring unanimity of opinion in favor of a project among affected groups.

[15] Application of FPIC, as defined by IFC for the purpose of providing operational guidance for users of the Performance Standards, requires at least one of the following circumstances: project impacts on lands and natural resources subject to Indigenous Peoples' traditional or customary use; relocation of Indigenous Peoples from traditional or customary lands or natural resources; or significant impacts on Indigenous Peoples critical cultural heritage, or proposed commercial use of their cultural heritage.

Biodiversity and Ecosystem Services

A wide range of stakeholders has been involved in advancing understanding and practice in the areas of biodiversity[16] and ecosystem services[17] in recent years. These topics generated considerable discussion during the consultation process, in part due to the significant particular complexities inherent in the assessment of biodiversity and ecosystem services, as well as challenges in identifying mitigation measures that are both ecologically relevant and practically oriented for private sector uptake. IFC extended the consultation process to engage fully with stakeholders on these issues, with the aim of harmonizing concepts and definitions related to biodiversity and ecosystem services with those used by other major stakeholders, most notably with the international conservation community.

One major focus area for stakeholders was the consideration of the larger landscape scale. The revised Performance Standards emphasize the importance of assessing biodiversity and ecosystem services and of mitigating related impacts on an ecologically relevant scale (sometimes called the “ecosystems approach”), rather than within the artificial boundary of the concession or management area.

Since 2006, the work of conservation groups,[18] industry associations, and practices developed by individual companies significantly advanced the thinking with respect to the mitigation hierarchy[19] and biodiversity offsets. As a result, the Performance Standards contain additional definitions and requirements for the mitigation hierarchy, particularly on the avoidance tier. The Performance Standards also include definitions and conditions on the implementation of biodiversity offsets. Another notable change is the inclusion of the “net positive gain” requirement for clients working in areas associated with critical habitats.[20]

Since the Millennium Ecosystem Assessment took place in 2005, ecosystem services have received increased attention as well, as several groups have worked on a variety of initiatives in this space.[21] As ecosystem services are multi-disciplinary and the beneficiaries are often local communities, the concept has been mainstreamed across six of the eight Performance Standards in the revised Sustainability Framework.[22]

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[16] IFC, guided by the Convention on Biological Diversity, defines biodiversity as the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part; this includes diversity within species, between species, and of ecosystems.

[17] IFC defines ecosystem services as the benefits that people, including businesses, derive from ecosystems. Performance Standard 6 includes further specificity and examples.

[18] This work was led in particular by the Business and Biodiversity Offsets Program, an international collaboration between companies, financial institutions, government agencies, and civil society organizations aimed at developing best practice in following the mitigation hierarchy to achieve a no net loss or net gain of biodiversity. http://bbop.forest-trends.org/.

[19] *Avoid* impacts, and when avoidance is not possible, *minimize* impacts and restore biodiversity and ecosystem services. The mitigation hierarchy includes offsets for biodiversity, which may be considered only after demonstration that the other tiers of the hierarchy have been appropriately implemented.

[20] Critical habitats are areas with high biodiversity value. The Performance Standards provide five criteria to guide the identification of critical habitats. See Performance Standard 6 for details.

[21] For example, an initiative on “The Economics of Ecosystems and Biodiversity” developed evidence for the importance of ecosystems in supporting a sustainable economy, and the World Business Council for Sustainable Development (WBCSD), the World Resources Institute (WRI), and other partners developed the Corporate Ecosystem Services Review (ESR), which further stressed the importance of ecosystem services to business continuity and provided a practical framework for companies to assess this topic.

[22] IFC is the first International Finance Institution to include consideration of ecosystem services in its investment requirements.

Sustainability in Practice: Implementation Challenges and Potential Responses

The emerging economies that supply the world with natural resources and manufactured goods are fueling the global economic recovery, and are where future growth is expected to take place. Yet these challenging markets are also environments in which the operating context presents a range of complications for firms.[23] This is exacerbated in fragile and conflict-affected states, which suffer from additional barriers to efficient business operations.

Lower-capacity companies operating in difficult environments struggle with many of these obstacles simultaneously, often without the benefit of the human, capital, and institutional resources enjoyed by larger, more established, or financially stronger firms. In this situation especially, businesses must take into account the need to balance short-term growth with longer-term sustainability concerns and the positive consequences yielded by implementing sustainable practices. For investors, staying current on evolving issues across the globe—especially in markets for exports—will be critical to supporting sustainability in both business and development.

IFC: LEARNING

In some areas IFC is focused on seeking and synthesizing external knowledge on specific topics. This model of engagement is intended to recognize existing expertise which can be incorporated into IFC's understanding and approach in order to articulate a way forward. Potential upcoming focal areas include assessment and management of environmental and social dimensions of cumulative impacts, community engagement, and financial markets, among others.

IFC is both aware of and impacted by these evolving realities. The strategic direction of IFC's operations includes increased investments in the least-developed countries and fragile and conflict-affected states, where weak institutions and limited local expertise complicate application of environmental and social action plans. Even where technical capacity is present, evolving standards and increased market demands still generate implementation hurdles.

IFC'S STRATEGIC DIRECTIONS IN SUSTAINABILITY

IFC's Sustainability Framework is only as good as its implementation. To support understanding and uptake of the new Policies and Standards, IFC has developed an Implementation Action Plan to address implementation challenges, with initiatives grouped into three broad areas: strengthening IFC's capacity and systems, client support, and strategic partnerships. IFC will focus on pressing and evolving issues in sustainability and implementation, and on developing approaches for real-time information-sharing between and among IFC's environmental and social specialists, client companies, and external partners.

[23] Often, weaker public institutions are unable to provide the support companies need. Regulatory systems may create additional costs for firms that elect to comply with environmental and social standards. At the community level, complex structures and relationships and different approaches to decision making can complicate business transactions.

In an increasingly complex business environment, the private sector faces opportunities and challenges to doing business in a sustainable way.

Rather than attempting to anticipate and address each new challenge through a prescriptive set of Performance Standards, IFC focused on establishing a principles-oriented, flexible framework, recognizing that its private sector clients can and will utilize a variety of approaches to achieve sustainability objectives. The objectives and requirements of the Performance Standards provide clarity in terms of desired outcome, but companies can tap into their experience and creativity to design how they reach those outcomes. Several years of implementation have confirmed that companies operating in emerging markets have developed many solutions to the wide range of challenges they face to doing business in a sustainable way.

These responses may involve simply improving existing practices, or they may require creating radically new and competitive solutions. The "win-win" scenario for companies and communities is one in which businesses can protect or enhance the bottom line while supporting environmental and social sustainability. In some cases these business-driven solutions may be specific to a particular sector, and frequently they are highly dependent upon the unique context in which the business operates. Consequently, understanding a firm's operating environment is essential for both IFC and companies to support uptake of sustainability standards.

IFC: CONVENING

Through IFC's role in providing financial and advisory solutions to clients, IFC can leverage change on a broader scale by bringing different stakeholder groups together. This often takes the form of organizing events, from small gatherings to facilitated workshops to large-scale trainings. One example is the annual Performance Standards Community of Learning event for financial institutions, which brings together IFC client companies, Equator Principles Financial Institutions (EPFIs), Development Finance Institutions (DFIs), Export Credit Agencies, and regulator banks. Participation in the Community of Learning allows attendees to draw on available expertise in applying Performance Standards and to benefit from knowledge sharing within a wide network of practitioners.

From climate change, to economic disparities, to resources constraints, businesses confront serious and significant environmental and social issues across the value chain. The ability of companies to address these challenges in both the short and long term will determine the viability and profitability of their operations—as well as the sustainability of their operating environment.

The following discussion highlights some of the challenges faced—as well as some of the innovative solutions devised and implemented—by firms operating in developing countries. It considers implementation issues in the non-financial and financial sectors, and illustrates a number of ways in which business activities can contribute to sustainable development. This overview is not intended to be exhaustive, but rather provides a view of some of the very real key issues companies deal with as they implement sustainable business practices in their projects.

IFC: LEADING

IFC works with other stakeholders to identify and analyze cutting-edge topics, and to build on its comparative advantage as a standard setter. One example on sustainability and good governance comes from the September 2011 signing of the Corporate Governance Development Framework. More than 25 DFIs agreed to adopt a unified set of guidelines to improve corporate governance at individual investee firms and to raise the bar for corporate governance in emerging markets more broadly. The common tools to be deployed by DFI partners are based on IFC's Corporate Governance Methodology.

Non-Financial Sector

On-the-ground and in-the-field are not only where business is done, but where impacts to communities and the environment occur. Here also is where the opportunities for sustainability—both in business and development terms—are the greatest, and where the challenges are most direct and tangible. In response, firms in various non-financial sectors have implemented innovative and sustainable solutions.

The ***extractive*** industry can sometimes face significant challenges to incorporating sustainable business and development practices into certain complex operations. Extractive industry projects can have a large footprint and a significant impact on the environment and on surrounding communities.

However, many oil, gas, and mining firms have been among the earliest and the most proactive companies in developing and utilizing tools to overcome these hurdles—in part, because stakeholders and the rapidly changing demands of the global marketplace make unique demands of these firms. As a result, the extractive industry as a whole is expanding its focus on sustainability issues, and the strategies these companies have employed may inform companies' strategies within and outside this sector.

VOLUNTARY PRINCIPLES ON SECURITY AND HUMAN RIGHTS

Some extractive companies have struggled to deal with abusive practices employed at project sites by (both public and private) security forces, some of which have resulted in clear human rights violations against community members. In response, a number of leading oil, gas, and mining companies joined several civil society organizations and governments to discuss the issue, starting in 2000.

The ensuring series of meetings ultimately resulted in the adoption of the *Voluntary Principles on Security and Human Rights*, a set of principles developed to guide companies in maintaining the safety and security of their operations within an effective framework that ensures respect for human rights. Uptake by companies—as well as by governments and NGOs—expanded significantly in the following years, and participants now meet annually to share best practices and to discuss relevant topics impacting their business activities. New initiatives continue to emerge from this group, which capitalizes on the unique assets each type of participant brings to the practice of supporting both security needs and human rights responsibilities.

The ways in which the private sector integrates sustainability into business operations will become increasingly important.

SUCCESSFUL RESETTLEMENT IN GHANA: NEWMONT'S AHAFO MINE

Newmont Mining Corporation is a leading gold producer with operations in five continents. Newmont invested $588 million in the Ahafo Mine in Ghana to develop four mining areas, and to build and operate related mine facilities. IFC supported the project with $125 million in loans (about 21 percent of total cost).

Prior to investing in the Ahafo Mine, Newmont engaged with local communities to responsibly resettle and compensate roughly 1,700 households located in the mining area. As part of the resettlement, Newmont built new homes and schools (with residents gaining legal title to the land), along with potable water and access to electricity. Additionally, Newmont launched a fund to contribute an estimated $500,000 annually to support community development programs such as the provision of water and sanitation, upgraded local clinics and training centers, HIV/AIDS programs for workers, a program on malaria prevention, and an information forum for women. In addition to Newmont's community programs, IFC introduced linkages programs to increase local participation in the project and to bring additional benefits to the surrounding communities.

Over the last decade, ***agribusiness*** firms involved in the production, trading, and processing of commodities have come under increased scrutiny, including greater concerns about environmental and social sustainability. While specific issues vary by commodity and country of production, some common themes emerge for the industry as a whole.[24]

One of the current main challenges for the agribusiness sector is adapting to climate change and mitigating its repercussions. A related significant and wide-ranging set of critical concerns focuses on natural resources—particularly water and land. Land conversion (especially forest conversion, including tropical moist rainforests with critical habitats) is often associated with loss of biodiversity, and with insufficient regard paid to the lost assets and livelihoods of displaced subsistence farmers and communities.[25] Globally, agribusiness accounts for 20 percent of GHG emissions and 70 percent of fresh water consumption, which generates unease regarding resource scarcity across the value chain, including water availability, and even water scarcity, among Affected Communities.

Agribusiness companies may also face serious supply chain challenges, as other problems may become expanded and further complicated when they extend into the supply chain. For example, labor practices—especially forced labor and child labor—are frequent and serious concerns in agribusiness, which in many cases are prevalent throughout the supply chain. Nonetheless, in these and other cases, it is important to distinguish between severity and likelihood of risks on one hand, and companies' ability to control or influence outcomes on the other.

In response to increased levels of scrutiny and the need to better manage the many challenges in this industry, some stakeholders have been developing environmental and social guidelines and forming working groups and technical committees to address key concerns.[26] One high-profile example of an integrated program is the World Cocoa Foundation in West and Central Africa, which works with farmers, communities, and other institutions to promote economically, socially, and environmentally sustainable cocoa production. The Foundation currently covers five countries[27] and administers programs that include farmer outreach, health and occupational safety, youth education, challenge grants, and research exchanges.

PRIVATE-SECTOR SOLUTIONS: COLLABORATION AS WELL AS COMPETITION

When faced with particularly substantial and systemic challenges, it often benefits firms to collaborate at a higher level, before then competing at the operational or production level. This helps ensure all companies face the same opportunities and constraints—including the smaller firms that may not otherwise be able to compete—while simultaneously contributing to a more sustainable long-term enabling environment. When companies come together to consider specific issues and commit to a common or similar approach, the result may be formal agreements like voluntary standards or certification schemes, or more informal solutions such as roundtable discussions within industry groups.

[24] While there are some common issues in many agricultural commodities, such as the threat to biodiversity and potential social issues (e.g., child and forced labor), many more are sector- and region-specific. Examples include cocoa in West Africa, cotton in Uzbekistan, and palm oil in Indonesia.

[25] This is particularly true in the case of "land grabbing," whereby large tracts of land are leased by countries to agribusiness companies (or even to other countries planning agribusiness activities) and displaced communities may not be fairly compensated or involved in the process. This is even more problematic when displacement involves Indigenous Peoples and disregard for their rights.

[26] Examples include the Round Table on Sustainable Palm Oil and the Round Table on Responsible Soy.

[27] Cameroon, Côte d'Ivoire, Ghana, Liberia, and Nigeria.

The next critical step to overcome hurdles for agribusiness firms is implementation, and companies are increasingly willing to undertake additional assessments and to consider potential mitigation measures. Among the most critical mitigation measures are improved stakeholder engagements, attention to livelihood creation and employment for Affected Communities, avoidance of Indigenous Peoples' lands, avoidance of critical natural habitat areas, improved labor standards, and attention to occupational health and safety. Some businesses are also increasing their outreach to supply chain participants to encourage or verify the use of sustainable practices.

ACCESSING NEW MARKETS THROUGH CERTIFICATION: ETHIOPIAN COFFEE INITIATIVE

In 2010, IFC, in partnership with NIB International Bank, established a three-year, up to $10 million risk-sharing facility to provide working capital loans to coffee farmer cooperatives working with TechnoServe, a reputable international NGO with 40 years experience in rural economic development. The facility offers up to $250,000 per cooperative, disbursed against cash flow requirements and collateralized by coffee stocks. The program is designed for cooperatives to pay back their working capital loans within one year entirely through the sales of their coffee, though IFC will cover up to 75 percent of any credit losses.

A significant increase in coffee volumes and income earned has been recorded since the Ethiopian Coffee Initiative started. In 2010-2011, coffee volumes increased by 70 percent and cooperatives' revenues more than doubled.

The implementation of IFC's Performance Standards was central to achieving this result, as it required each cooperative to comply with internationally accepted environmental, social, and safety-related best practices. Through this initiative, 49 cooperatives were verified as Starbucks C.A.F.E., 18 cooperatives were certified Organic, and 4 received Fair Trade certification. These certifications have enabled them to gain access to new markets, on top of greater premiums earned for the quality of their coffee—estimated on average 40 percent more than previously received, which translates into a total of $1.5 million in added revenue.

Many of the farmer cooperatives have embraced the Performance Standards and see their performance against them as a source of pride. Moreover, those achieving the highest sustainability ratings generally have the lowest operating costs and the highest quality coffee.

INFLUENCE FROM GLOBAL COCOA MARKETS: COCOA PRODUCTION IN IVORY COAST

Cocoa is an important commodity in Ivory Coast— it is the world's largest cocoa producer with 40 percent of total world production. The economy has been built on strong agricultural exports and commodity trading; 64 percent of land in the country is devoted to agriculture and the sector accounted for 26 percent of the GDP in 2010. The cocoa sector provides the main source of income for one fifth of the Ivorian population.

There are a number of actors in the value chain in Ivory Coast, with an average of 3-4 steps from the farm to international traders and processors. Multiple buyers, multiple clients, many middle men, and sourcing in different areas all make traceability difficult.

Globally, a few very large companies dominate the processing and trading in the cocoa industry. Large agro-commodity traders are critical in Ivory Coast and have considerable influence on the value chain. Not only are they important for export revenues, but their activities can also be leveraged to improve productivity at the farm level, deepen the uptake of sustainability standards, and provide a bridge to financing and other support services for farmers.

The global cocoa market is shifting, with major chocolate companies driving their suppliers to provide sustainable supply chains.[i] These multinationals are often using their own tracing or sourcing programs to address productivity and quality in their supply chains. Certification has become a primary tool for exporters to use with cooperatives or farmer associations. Some companies are also developing farmers' field schools and community-based programs, while others are building partnerships to conduct independent audits of supply chains, or are developing monitoring mechanisms for use at the village level.

[i] Retailers are also important in pushing for more sustainable cocoa supply of the products they offer. Intermediate aggregators (middlemen) have an important role to play, but they have limited capacity and value addition, outside of logistics. However, they could play multiple roles with additional professionalization and financing.

PRIVATE-SECTOR SOLUTIONS: PARTNERS IN KNOWLEDGE

Another form of collaboration comes from external partnerships, where companies share information to build networks and a knowledge base. These may be organized by industry groups or may build on sectoral or regional roundtables. They often take the form of communities of learning or practice, which help companies collectively influence different sectors, share implementation experience, and gain knowledge.

Companies in ***infrastructure*** are presented with another, slightly different series of challenges. Often, these projects require considerable investment and a close working relationship with governments. They may also oblige firms to maintain productive relationships with other third parties, as when companies are dependent upon other entities to manage social situations (e.g., resettlement) or to administer social programs (e.g., livelihood programs).

Infrastructure projects in many cases also involve wide-ranging impacts, requiring businesses to manage cumulative impacts on aquatic and terrestrial ecological habitats (e.g., from other hydro- or wind-power projects in the area). Given their often-high demand for resources, infrastructure projects may find that they are competing with other priorities to use the same resources (e.g., water).

Strategic partnerships are one way that companies undertaking infrastructure projects address some inherent challenges; these may take the form of public-private partnerships, or they may be relationships with non-governmental groups that help with the delivery side of environmental and especially social mitigation strategies. Partnerships can also help firms acquire the necessary knowledge or guidance to take advantage of win-win situations, such as implementing renewable energy programs to reduce costs and meet standards.

ENVIRONMENTAL AND SOCIAL PROJECTS IMPROVE THE BOTTOM LINE IN MADAGASCAR: NEWPACK

Newpack is a cardboard packaging company in Madagascar with 242 employees, 460 clients, and annual revenue of $10.4 million. In July 2008, Newpack was acquired by I&P Management, which evaluated the company's environmental and social standards and performance using IFC's Performance Standards. Based on the results, Newpack designed a comprehensive sustainability strategy that enabled the company to penetrate new markets, capture sizable cost savings and revenue opportunity through resource efficiency, and increase employee health and safety standards.

The strategy included implementing a ESMS to identify environmental and social issues, establish a corrective action plan, and monitor progress. The ESMS also helped Newpack use resources in a more efficient manner, substantially reducing costs—over three years, the company reduced its consumption in electricity by 29 percent, in water by 47 percent, and in starch by 5 percent. Moreover, the company generates approximately $150,000 in income through waste paper sales, and utilizes a total of 81 percent of partially or wholly recycled paper for its production. Newpack also has improved its wastewater management to reduce pollution and costs; designed a company-wide fire plan to protect its employees; and developed a Hygiene, Safety, Occupational Health, Social and Environmental Charter that has helped the company reduce work-related accidents by 20 percent (2009–2010), with no major accidents since 2008.

Newpack invested a total of $220,000 in the implementation of environmental and social projects, which in turn have yielded a total savings of nearly $539,000—approximately 5 percent of Newpack's 2010 revenue—in the first two years.

Financial Sector

While attention has more frequently been focused on companies in the non-financial "real" sector and their ability—or failure—to implement sustainable business practices, scrutiny has increasingly turned to the ***financial*** sector, in recognition of the role these institutions play in promoting sustainable business and sustainable development. Especially in times of economic turmoil, robust financial institutions are those which manage well both financial and non-financial risks. Beyond their more high-profile role in supporting large firms, Financial Intermediaries (FIs) also help spur economic growth by providing financing to small and medium enterprises, which are critical to job creation in many emerging markets.

Working to develop the private sector in some of the world's poorest countries is a challenging undertaking, and every market in which IFC operates is unique, with different legal, political, and social norms. Partnering with local banks has helped IFC develop solutions that are tailored to the needs of micro, small, and medium businesses, which are estimated to generate about 86 percent of new jobs in emerging markets.

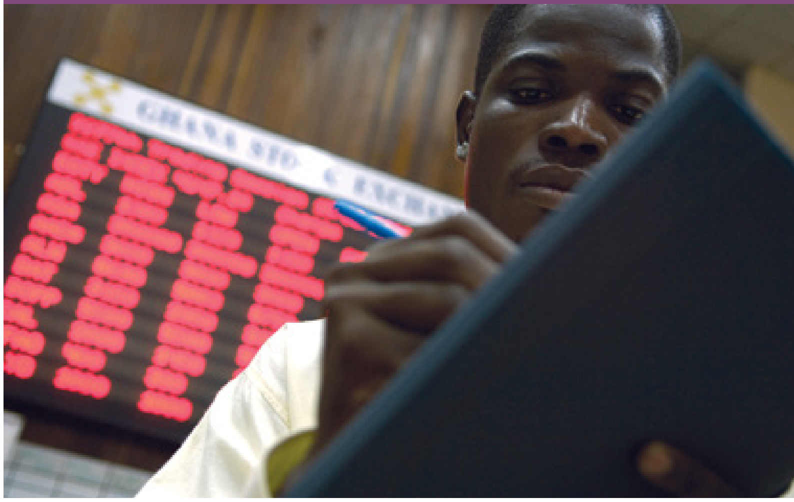
Working with a wide spectrum of FIs[28] enables IFC to have a far greater impact across a range of projects and programs than in individual transactions. IFC's strategy is therefore aimed at helping build market capacity or influencing performance and behavior more systematically. Bringing sustainability considerations to scale in this way can also contribute more effectively to systemic change and long-lasting impacts on markets.

In spite of their positive business and development impacts, FIs face unique obstacles in implementing sustainability standards. FIs manage portfolios of companies, which in turn make business decisions with environmental and social implications. Being one step removed from actual project activities introduces an additional layer of complexity for investors. Consequently, many FIs rely heavily on ESMSs to pursue their sustainability objectives.

PRIVATE-SECTOR SOLUTIONS: BUILDING INSTITUTIONAL CAPACITY

It is critical to build an institutional base so that expertise and experience are available for companies on a continual basis. This extends beyond knowledge generation and dissemination, to a more systemic integration of information and knowledge. Most often, this takes the form of some type of training, but also can reach as far as the broader enabling environment. In its most expansive conception, building institutional capacity also encompasses the overarching systems and regulations within which firms operate. This includes markets and financial institutions, as well as regulatory contexts and political institutions.

By joining forces on a variety of initiatives, many FIs have come to a common understanding of good environmental and social practices and have deepened industry-wide efforts to promote sustainability. One influential example of an industry group partnership is the Equator Principles Financial Institutions (EPFIs), a voluntary environmental and social risk management framework developed by private sector banks based on IFC's Performance Standards, and now used by over 75 financial institutions worldwide. IFC convenes representatives from the EPFIs, as well as from other Development Financial Institutions and Export Credit Agencies, at an annual Community of Learning meeting to share information and implementation experience.



FIs most effectively implementing sustainable practices have integrated environmental and social concerns fully into investment decisions, management priorities, and incentive

[28] As in IFC's *Interpretation Note on Financial Intermediaries*, here also the term FI refers to a variety of financial institutions such as universal banks, investment banks, private equity funds, venture capital funds, microfinance institutions, and leasing and insurance companies, among others.

"FIRST FOR SUSTAINABILITY" WEBSITE

One recently launched tool, developed by IFC in partnership with the Ministry for Foreign Affairs of Finland and the Swedish International Development Cooperation Agency, is the "FIRST for Sustainability" website.[i] This online platform provides resources, solutions, and tools for financial institutions in the categories of Environmental Business Opportunities, Environmental and Social Risk Management, and Sustainability in Action. The goal of this tool is to help build capacity and knowledge sharing for clients and FIs in the broader community.

[i] www.firstforsustainability.org

structures. They subsequently encourage similar actions throughout their portfolios, supporting markets around sustainability and providing incentives to clients for sound environmental and social performance. For IFC, therefore, one particularly attractive reason for engaging in financial markets is that sustainability efforts can be brought to scale and addressed programmatically in ways not possible in individual projects.

In its financial investments, IFC uses a risk-based approach—the environmental and social risk management requirements are commensurate with the level of risks related to IFC's investment and/or FI clients' portfolios. The updated Sustainability Policy more effectively signals the environmental and social risks of FI investments with the introduction of a three-tiered risk categorization for FIs: high (FI1), medium (FI2), and low (FI3), with risk-appropriate due diligence requirements. This allows for more tailoring of strategies to achieve environmental and social standards, and is expected to strengthen clients' ESMS in accordance with the level of environmental and social risks in their portfolios.

Financial markets are essential to creating businesses that are both profitable and sustainable.

SUSTAINABILITY INDICES

There are more than 50 sustainability indices around the world, across the World Federation of Exchanges' 51 member exchanges.[i] Most of the sustainability indices assess companies based on their performance, impact, and response to emerging environmental, social, and governance (ESG) issues, using a variety of industry-appropriate metrics weighted by sector. This information is very useful for investors, as there is a direct correlation between good environmental and social performance and financial performance.[ii]

[i] World Federation of Exchanges, "Exchanges and Sustainable Investment," August 2009.
[ii] A Harvard Business School study found that companies with strong ESG performance outperformed companies with weak ESG performance, as measured in accounting terms.

This categorization methodology reflects the fact that the majority of IFC's investments through FIs do not support the construction of industrial assets on the ground. Most of IFC's support for FI clients therefore have a very limited direct impact on their environmental and social risk exposure (e.g., provision of short term liquidity, trade finance, retail banking, housing finance etc.). However, where significant environmental and social risks are being encountered through project development activities supported by project and corporate finance (e.g., through funds), IFC expects its FI clients to have an appropriate management system, which will allow them to apply the Performance Standards. IFC also engages directly with these FI clients to provide guidance on applying the Performance Standards at the sub-project level. Nevertheless, the majority of IFC's FI clients are managing their environmental and social risk through simpler screening mechanisms.

NATIONAL REGULATORY STANDARDS: CHINA'S GREEN CREDIT POLICY

National regulatory standards are being adopted to take into consideration sustainability in the financial markets. For example, in 2007, China launched the Green Credit Policy, which encourages banks to lend more to energy efficient and environmentally sustainable companies and less to polluting and high-energy consuming enterprises; the Policy refers to IFC's Performance Standards as international best practice. In February 2012, China adopted the Green Credit Guidelines, which show banks how to integrate sustainability considerations into their lending cycle. The Guidelines will be applied to all lending, from domestic to overseas branches and operations, a point of extreme importance given the size of China's outbound inversions.

Annex

"The Policy and Performance Standards on Social and Environmental Sustainability was the first time that IFC articulated in a single document our development and sustainability mandates. The review and update of the Policy and Performance Standards on Social and Environmental Sustainability reflects IFC's commitment to keeping pace with an ever evolving environment."

William Bulmer
Director, Environment, Social and Governance, IFC

"At IFC, we believe transparency and accountability are fundamental to fulfilling our development mandate. These principles are reflected not only in our Policy on Disclosure of Information, but in the way we work at IFC. Disclosing information about our activities strengthens trust in IFC and our clients. It is especially important that we ensure those who are affected by our projects, are adequately informed and consulted so that we can address their concerns and improve the development impact of our initiatives as well."

Bruce Moats
Director, Corporate Relations, IFC

Initiation of the Review Process

IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information (Sustainability Framework) became effective on April 30, 2006. In approving the 2006 Framework, the World Bank Group's Board asked IFC to provide two updates at 18 months and 36 months. In July 2009, IFC presented in its report on the first three years of application to the Board's Committee on Development Effectiveness (CODE).[29] Based on the findings in the report, which reflected IFC's evolving product offering, IFC's implementation experience, and a changing global environment, Management and the Board agreed to review and update the 2006 Sustainability Framework.

IFC launched the review and update process formally on September 8, 2009. IFC committed to a collaborative and transparent review and update process that formally was divided into three phases, though interested parties were able to provide feedback at any time. IFC actively engaged stakeholders through a combination of web-based tools and live consultations to disseminate information and to receive input. Feedback from communities directly affected by IFC projects was especially important and was solicited in face-to-face meetings.

[29] IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information: Report on the First Three Years of Application. July 29, 2009. http://www.ifc.org/PS-third-year-report .

Throughout the review and update process, IFC sought to achieve the right balance between enhancing its Sustainability Framework and ensuring the proposed revisions would be operationally robust and implementable, and that they would lead to enhanced sustainability outcomes.

INPUTS AND ENGAGEMENT

In the years since the launch of the Sustainability Framework, IFC has learned valuable lessons from its own implementation experience and from that of others, including companies. IFC also benefited from reviews undertaken by the Compliance Advisor Ombudsman[30] and the World Bank Group's Independent Evaluation Group.[31]

The 2012 Sustainability Framework reflects consideration of these inputs, as well as the wide range of comments received throughout the review and update process. Stakeholder groups participated through extensive consultations with private sector companies, involving more than 160 companies, extensive meetings with government agencies in different parts of the world, bilateral meetings with a wide variety of stakeholder groups, 25 public consultation events, and community consultations in nine countries. The reviews by the Board's CODE, and numerous meetings and discussions with Executive Directors and their Advisors, also contributed significantly to the process. Finally, IFC received and systematically considered over 300 written submissions from different groups representing a broad range of interested parties.

Consultation and Engagement Process

IFC was committed to a collaborative and transparent review process, and strove to give all stakeholders—particularly those involved with or affected by IFC projects—sufficient opportunity to participate by voicing their opinions, suggestions, and concerns.

IFC also consulted on an ongoing basis with multilateral banks, bilateral banks, export credit agencies, commercial banks (including the EPFI Steering Committee), trade unions, United Nation agencies, IFC clients and business organizations, communities directly affected by IFC projects, international and local nongovernmental organizations/civil society organizations, and an External Advisory Group. World Bank Group (WBG) colleagues were also consulted throughout the process on areas in which further policy coherence and process efficiencies can be achieved, with a view to strengthening WBG collaboration.

Of particular importance was the ongoing engagement with WBG's Board of Directors. IFC met collectively and individually with Executive Directors and their advisors throughout the review process, providing updates and receiving guidance.

COMMUNITY CONSULTATION

Feedback from communities and individuals directly affected by IFC projects was especially important. IFC attempted to select a representative sample of communities from a variety of geographical locations with a wide range of experiences with IFC projects and environmental and social issues. Input from these communities and individuals was sought specifically regarding their level of awareness of the project and the project's mitigation measures, their experience with project implementation during construction and operation, and suggestions to improve this type of experience.

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[30] http://www.cao-ombudsman.org/howwework/advisor/3yrpolicyreview.htm.

[31] http://siteresources.worldbank.org/EXTSAFANDSUS/Resources/Safeguards_eval.pdf.

DEDICATED INTERACTIVE WEBSITE

A dedicated website was launched to promote transparency and to provide an avenue for participants to stay informed and to easily participate (including by providing feedback). IFC launched this site through a press release and notified its listserv, which included individuals in academia, financial institutions, industry associations, NGOs, civil society organizations, and companies, among others.

The website was constantly updated with information on the review and update process, background documents, learning resources (including Frequently Asked Questions), timeline, and consultation summaries.

- The *Participate* section allowed users to provide very specific feedback on the Sustainability Framework text, or to provide general feedback in a community-based platform, where they could experience the process of drafting policy, vote, and comment on others' versions.
- The *Stay Informed* area provided the latest information about the consultation in a blog platform, video interviews, highlights of materials related to the Sustainability Policy and Performance Standards, press releases, and significant news. Users could register to receive updates on the process, subscribe to the site's RSS feeds, and follow the process via Twitter.

LANGUAGE

Consultations were conducted in English, with translation services available during meetings. A summary of the meeting notes in the local language was provided for regional face-to-face meetings and meetings with local communities.

Translations of the Sustainability Policy, Performance Standards, and the Access to Information Policy were made available for Phase II and Phase III Consultations in Arabic, Chinese, French, Portuguese, Russian, and Spanish, with a track-changes version available in English.

The final 2012 Sustainability Framework and Guidance Notes were translated from English into Arabic, Chinese, French, Portuguese, Russian, and Spanish, and the Sustainability Framework into Turkish.



TIMELINE OF THE PPS UPDATE AND REVIEW PROCESS

2009

JUL 29	SEP–NOV	NOV–DEC
Presentation to CODE of IFC's Policy and Performance Standards on Social and Environmental Sustainability (PPS) and Policy on Disclosure of Information: Report on the First Three Years of Application, July 29, 2009.	Phase I: consultation period on key issues and challenges.	Issue summary of the consultation outcomes from Phase I.

2010–11

MAR	MAY	JUNE-AUG	NOV-DEC	JAN-MAR	MAY
Review of findings from CAO's and IEG's Performance Standards analysis.	Seek approval to consult on Version 1 draft text changes.	Phase II: consultation period on Version 1 draft text changes.	Seek approval to consult on Version 2 draft track changes.	Phase III: consultation period on Version 2 final text changes.	Presentation of the complete final draft text to the Board and approval

2012

JAN 1
Revised PPS become effective and are published along with guidance notes.

Consultation Phases

PHASE I CONSULTATIONS: SEPTEMBER–NOVEMBER, 2009

During the 60-day Phase I consultation period in the autumn of 2009, IFC held over 55 consultation meetings (including three open sessions in Istanbul, Washington, and Brussels) and one External Advisory Group[32] meeting. In total, IFC met over 500 stakeholders from a range of backgrounds and regions.

Phase I consultations focused on obtaining feedback in the following areas:

- **Clarity of Language:** Advice on how to increase clarity and reduce ambiguity in language wherever necessary.
- **Implementation Effectiveness:** Suggestions on how to improve implementation, especially from those who had implemented, or had been impacted by, the Performance Standards.
- **Gaps in Current Coverage:** Help in identifying missing areas and accompanying guidance on ways to implement new requirements on the ground.

[32] http://www.ifc.org/SF-2009-2011-Review-FAQ#Q14

IFC used the report IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information: Report on the First Three Years of Application[33] to begin the dialogue. During this period IFC also collected stakeholders' views on the consultation process outlined in the Approach to Consultation and Engagement paper.[34]

PHASE II CONSULTATIONS: JUNE–AUGUST, 2010

IFC developed Version 1 of the Sustainability Framework taking into account feedback received during Phase I Consultations. Once the Board's CODE approved these documents for public consultation, IFC began seeking detailed feedback on the proposed changes. Over the summer of 2010, IFC met with over 750 stakeholders and held over 60 consultation meetings.

Phase II included four layers of consultations:

- **Open house consultations:** One-day workshops, open to all stakeholders, held in Washington, Manila, Moscow, Brussels, and São Paulo.
- **Multi-stakeholder consultations:** One-day workshops, by invitation only, held in Bogota, Dakar, Accra, Istanbul, and New Delhi.
- **Thematic consultations:** One-day workshops, open to all stakeholders, held in Washington, on financial intermediaries, biodiversity, indigenous peoples, and human rights. (Human rights consultations were held simultaneously in Washington and London.)
- **Community consultations:** To hear from a sample of communities affected by IFC projects, IFC commissioned a series of community consultations in Guatemala, Nicaragua, China, Indonesia, Turkey, India, Peru, Senegal, and Uganda. Community consultations included discussions with approximately 500 people in nine countries, focused on the conduct of project-related consultations, perceptions about project benefits and potential risks, and views on how concerns had been addressed.

PHASE III CONSULTATIONS: JANUARY-MARCH, 2011

Building upon the comments received during the previous two consultation periods, IFC issued a second version of draft text changes for a final review and comment period. The documents highlighted proposed changes in comparison to the first draft, as the goal of this consultation period was to solicit specific feedback before proposed changes were submitted to the World Bank Group's Board for review and approval.

[33] http://www.ifc.org/IFC_PPSThreeYearApplication

[34] http://www.ifc.org/PPSOverviewConsultationEngagement

External Consultation Events Phases II & III (Open Houses, Multi-stakeholder meetings, Community Consultations)

During Phase III, six open houses were organized:

- **Mumbai, India**–January 14, 2011
  IFC met with 13 organizations
- **Tokyo, Japan**–January 21, 2011
  IFC met with 4 organizations
- **Lima, Peru**–January 25, 2011
  IFC met with 11 organizations
- **Johannesburg, South Africa**–February 15, 2011
  IFC met with 19 organizations
- **Paris, France**–February 23, 2011
  IFC met with 30 organizations
- **Washington, DC**, USA–March 3, 2011
  IFC met with 31 organizations

BOARD APPROVAL

The Board approved the final text on May 12, 2011. The updated 2012 Sustainability Framework went into effect on January 1, 2012. From the time of Board approval until the Sustainability Framework became effective, IFC also produced detailed accompanying Guidance Notes to the Performance Standards.

Key Changes to IFC's Sustainability Framework

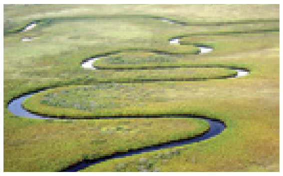
Sustainability Policy

- Strengthens IFC's commitments to climate change, business and human rights, corporate governance, and gender
- Revises and strengthens categorization system with greater emphasis on inherent risks and project context
- Financial Institutions (FIs): Category 1, 2, or 3
- Strengthens due diligence for FIs
- Clarifies due diligence for Advisory Services
- Strengthens requirements for extractive industry projects disclosure

Access to Information Policy

- The 2006 "Disclosure of Information Policy" is renamed as the "Access to Information Policy," and is updated to align IFC with the World Bank in strengthening its commitment to transparency
- The AIP introduces a new regime of information disclosure throughout the IFC project cycle, which results in IFC disclosing more project-level information, including on environmental, social, and development outcomes during all stages of the project
- The new environmental, social, and development impact disclosure requirements will also apply to investments made through Financial Intermediaries and to Advisory Services

Performance Standard 1



- Changes name to "Assessment and Management of Environmental and Social Risks and Impacts"
- Refers to private sector responsibility to respect human rights
- Introduces better applicability to investments other than project finance (non-defined assets concept)
- Requires stakeholder engagement beyond Affected Communities
- Clarifies levels of stakeholder engagement under different circumstances
- Requires development of a formal environmental and social policy reflecting principles of the Performance Standards
- Introduces participatory monitoring (when appropriate) as an option during implementation
- Requires periodic performance reviews by senior management

Performance Standard 2

- Establishes requirement for comparable terms and conditions for migrant workers compared to non-migrant workers
- Introduces quality requirements for workers' accommodation
- Requires ongoing monitoring of working conditions for workers under the age of 18
- Requires establishing policies and procedures to manage and monitor compliance of third parties with Performance Standard 2
- Requires alternatives analysis in case of retrenchment
- Requires ongoing monitoring of primary supply chain
- Introduces "safety" trigger in primary supply chain

Performance Standard 3

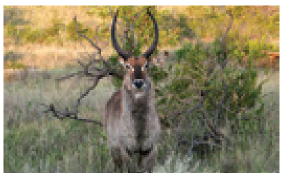
- Changes name to "Resource Efficiency and Pollution Prevention"
- Introduces a resource efficiency concept for energy, water, and core material inputs
- Strengthens focus on energy efficiency and greenhouse gas measurement
- Reduces greenhouse gas emissions thresholds for reporting to IFC from 100,000 tons CO_2 to 25,000 tons of CO_2 per year
- Requires determination of accountability with regards to historical pollution
- Introduces concept of "duty of care" for hazardous waste disposal

Performance Standard 4

- Considers risks to communities associated with use, and/or alteration of natural resources and climate change through an ecosystems approach

Performance Standard 5

- Extends scope of application to restrictions on land use
- Strengthens requirements regarding consultations
- Introduces a requirement for a completion audit under certain circumstances



Performance Standard 6

- Changes name to "Biodiversity Conservation and Sustainable Management of Living Natural Resources"
- Clarifies definitions of and requirements for various types of habitats
- Introduces stronger requirements for biodiversity offsets
- Introduces specific requirements for plantations and natural forests
- Introduces specific requirements for management of renewable natural resources
- Strengthens supply chain scope

Performance Standard 7

- Expands consideration of Indigenous Peoples' specific circumstances in developing mitigation measures and compensation
- Introduces requirement for land acquisition due diligence with regards to lands subject to traditional ownership or under customary use
- Introduces the concept of Free, Prior, and Informed Consent (FPIC) under certain circumstances

Performance Standard 8

- Requires clients to allow access to cultural sites

Events and Milestones

The following table lists events and milestones related to the Sustainability Framework Review and Update Process. It includes each of the consultation phases and a range of specific events, such as thematic consultations and open house consultations.[35]

DATE	MILESTONE / EVENT
April 30, 2006	**IFC's Sustainability Framework comes into effect**
July 29, 2009	World Bank Board of Executive Directors Committee on Development Effectiveness (CODE) discusses IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information: Report on the First Three Years of Application and approves the Review and Update of the Sustainability Framework
September 8, 2009	**IFC launches the Sustainability Framework Review and Update with Phase I of the consultation process**
September 30, 2009	Live online discussion
October 5, 2009	Annual Meetings - Consultation with NGOs on IFC Performance Standards and Disclosure Policy *Istanbul, Turkey*
October 22, 2009	Open-house Consultation *Washington, DC*
November 4, 2009	Live online discussion
November 12, 2009	Face-to-face Consultation *Brussels, Belgium*
November 13, 2009	**Phase I consultation period closes**
December 1, 2009	Workshop with CSOs *Nairobi, Kenya*
December 4, 2009	IFI Meeting on Disclosure Policy *Washington, DC*
January 11, 2010	IFC issues Progress Report on Phase I of Consultation
April – July, 2010	Community Consultations *Guatemala, Nicaragua, China, Indonesia, Turkey, India, Peru, Senegal, and Uganda*
April 14, 2010	IFC submits draft revision Version 1 (Rev. 0.1) of the Sustainability Framework to CODE
April 23, 2010	Update and Panel Discussion on IFC's Performance Standards and Disclosure Policy Review *Washington, DC*
May 5, 2010	CODE meets to discuss Version 1 and approves a second round of consultations

[35] Additional information on the review and update events, milestones, and documents can be found online at http://www.ifc.org/SF-2009-2011-Review

DATE	MILESTONE / EVENT
June 2, 2010	**Phase II consultation period begins**
June 3, 2010	Bogotá consultation
June 15, 2010	Dakar consultation
June 15, 2010	Washington, DC consultation
June 18, 2010	Accra consultation
June 22, 2010	Istanbul consultation
June 25, 2010	New Delhi consultation
July 9, 2010	Manila consultation
July 12, 2010	Brussels consultation
July 22, 2010	São Paulo consultation
July 26, 2010	Financial Intermediaries consultation
July 27, 2010	Biodiversity and Ecosystem Services consultation
July 29, 2010	Indigenous Peoples consultation
August 16, 2010	Human Rights thematic consultation
August 27, 2010	**Phase II consultation period closes**
December 3, 2010	IFC submits draft revision Version 2 (Rev. 0.2) of the Sustainability Framework to CODE
December 15, 2010	CODE meets to discuss Version 2 and approve a third round of consultations
December 17, 2010	**Phase III consultation period begins**
January 14, 2011	Open house consultation in Mumbai, India
January 21, 2011	Open house consultation in Tokyo, Japan
January 25, 2011	Open house consultation in Lima, Peru
February 15, 2011	Open house consultation in Johannesburg, South Africa
February 23, 2011	Open house consultation in Paris, France
March 3, 2011	Open house consultation in Washington, DC, USA
March 4, 2011	**Phase III consultation period closes**
May 12, 2011	**Board of Directors approves IFC's updated Sustainability Framework**
August 1, 2011	**IFC's updated Sustainability Framework available to the public**
January 1, 2012	**IFC's Sustainability Framework comes into effect**
June, 2012	**World Bank Group Board approves use of IFC's Performance Standards for the World Bank's private sector engagement**

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For more information on IFC's commitment to sustainability, including links to the updated Sustainability Framework, please visit www.ifc.org/sustainability.

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