

**Compliance  
Advisor  
Ombudsman**

**A REVIEW  
OF IFC'S  
SAFEGUARD  
POLICIES**

**Core Business: Achieving  
Consistent and Excellent  
Environmental and Social  
Outcomes**

**January 2003**

**Compliance**

**Advisor**

**Ombudsman**

**A REVIEW  
OF IFC'S  
SAFEGUARD  
POLICIES**

**Core Business: Achieving  
Consistent and Excellent  
Environmental and Social  
Outcomes**

**January 2003**



# PREFACE

For more than a decade the Safeguard Policies have been an essential component in the World Bank Group's mission of poverty alleviation through sustainable development. They have also been a rallying point for external stakeholders looking for concrete commitments. For people affected by projects, the policies are the basis for holding the Bank Group accountable for its promise of development.

For IFC in its partnership with the private sector, the Safeguard Policies are part of the contractual relationship and therefore a benchmark of best practice—one that can have a multiplier effect throughout business sectors.

In examining the impact and effectiveness of the Safeguard Policies three years after their specific adoption by the Board, the CAO was mindful of their symbolism as well as their practical effect. During the period of the review, IFC signaled its express commitment to sustainability, actively seeking out the value added in projects through a focus on a triple bottom line that takes account of people, planet, and profits. This commitment marks a significant curve in the road for IFC—the clear articulation of a desire to move from a strictly compliance approach to one of a commitment to minimum standards complemented by aggressively seeking opportunities to add value throughout the corporation.

In addition to providing an important input into IFC's future decision making on its environment and social safeguard policy making and its management procedures, this review also provides important commentary and recommendations for an institution committed to sustainability.

As the report shows, the breadth of IFC products, the range of projects, and the divergence within the markets in which it operates and among the partners with whom it does business mean that a principal management challenge is to allow staff to ensure minimum standards and then achieve value added through flexible approaches tailored to the realities of each project.

In the past, environment and social standards have been mythologized by some as providing one more hurdle for already pressured investment departments to do business. The report argues that it is not the existence of the minimum standards that puts a brake on business in most cases, but the cumbersome way in which the standards are sometimes implemented. Furthermore, the accountabilities that exist within IFC to date do not reinforce the message from the top that the Safeguard Policies and their values are everybody's business, regardless of whether they are a staff or manager's function. For a development bank, environmental and social performance matter as much as financial rate of return.

The conclusions of this study suggest the next step for IFC. For the Safeguard Policies to maximize their potential as standard setters and multipliers, for them to make a real difference on the ground in the way they are applied, the institution must move to accountability for performance, not just process compliance. Compliance with the

Safeguard Policies is important, but alone it may not ensure satisfactory outcomes. In each project the implementation of the Policies is the responsibility of the project sponsor. Their effectiveness is therefore a result of the quality of the partnership that IFC develops with each sponsor and the other stakeholders in the project.

In any bureaucracy, it is easier to check the checking of boxes than to measure outcomes; but with IFC's commitment to sustainability, it is outcomes that matter to bottom lines as well as to people and the planet. IFC should be clearer at the outset of a project about what specific sustainable development impacts it expects to achieve and then measure itself against those goals and report on it. This will be the only systematic way to ensure that the institution learns what works and why. This approach will also herald the new era of partnership that is implicit in sustainability, allowing IFC's private-sector partners, NGOs and communities, as well as local authorities and governments, to be part of IFC's successes.

The report found that IFC has much to be proud of in the way in which its use of the Safeguard Policies has set a standard. It has developed a team of environmental and social specialists unrivaled in their mix of skills and experience. This provides a strong foundation upon which IFC can build toward its goal of sustainable development. The CAO hopes that this report will be used to reinforce the foundation by filling in gaps, correcting weaknesses, and strengthening procedures and systems to ensure that excellence will be consistently achieved.

# CONTENTS

EXECUTIVE SUMMARY 6	V. FINDINGS ON INDIVIDUAL SPS, 30	IX. CONCLUSIONS 46
Summary of Conclusions 6	Environmental Assessment 30	Safeguard Policies, Individually and as a Set 46
Summary of Recommendations 8	Natural Habitats 31	Effectiveness and Impact 47
I. INTRODUCTION 10	Forestry 32, Pest Management 32	Financial Intermediaries 48
Mandate 10, Structure 10	Dam Safety 33	Transformation to Sustainability Systems level 49
Coverage 11, Audience 11	International Waterways 33	X. RECOMMENDATIONS 50
II. BACKGROUND 12	Involuntary Resettlement 33	Partner Selection 50
Purpose 12, Context 12	Indigenous Peoples 34	Everybody's Business—a Corporate Approach 50
III. METHODOLOGY 15	Cultural Property 35, Child Labor 35	Stakeholder Engagement 51
Objectives 15, Approach 15	VI. GAPS AND DEFICIENCIES 36	Revamping the Policies 52
Concepts of Effectiveness and Impact 18	Social Policies 36, Labor Standards 36	Social Policy 52
Dilemmas around Causality 19	Policies Vis-à-Vis International Standards 37	The Implementation System 53
IV. FINDINGS ON IMPACT AND EFFECTIVENESS 20	Health Issues 37	Financial intermediaries 53
Today's Safeguard Policies 20	Environmental Policies 37	Endnotes 55
Today's System for Ensuring Compliance 20	Keeping up to Date 37	Appendix 58
Impact and Effectiveness 22	Policies, Guidelines, Guidance 38	Glossary 59
	Toward More Result-Oriented Policies 38	
	VII. OTHER FACTORS AFFECTING IMPACT AND EFFECTIVENESS 39	
	Factors Within IFC 39	
	Factors Outside IFC 40	
	VIII. APPLYING THE POLICIES TO FINANCIAL INTERMEDIARIES 44	

# EXECUTIVE SUMMARY

The purpose of this review was twofold: first, to assess independently the effectiveness and impact of IFC's Safeguard Policies (SPs) three years after their adoption; and second, to draw conclusions and make recommendations on the SPs and their system of application so as to ensure that they achieve their objectives.

The review took a comprehensive approach, using multiple methodologies and sources of data, to build a picture of what was happening and why—at the project, policy, and system levels. The review used multiple components and compared their findings to develop greater understanding of the effectiveness and impact of the SPs and the factors that enhanced or inhibited their effectiveness and impact.

The concepts of effectiveness and impact are of central importance. Effectiveness is defined as the extent to which the SPs, in the way in which they have been interpreted and implemented, have been effective in achieving their desired result. This is necessarily subjective as the majority of the SPs contain only vague assertions as to their goals, and the management system established around the environmental and social review procedure does not stipulate targets beyond that.

A central theme of this review is the extent to which the SPs had positive impacts. Impact is defined as the outcomes on the ground of implementing an SP. These could be negative or positive, intentional or unintentional.

## Summary of Conclusions

Overall, the SPs are having a positive effect and contributing to positive environmental and social impacts. Often they are going beyond “do no harm” and providing a demonstration effect on other stakeholders. To understand why they have this effect, why they are not having a greater effect, what works, and what doesn't is the story of the interaction among the sponsor or Financial Intermediary (FI), the investment team, the environmental and social specialists, the host government's regulations and, in some cases, the engagement of communities and civil society.

SPs are most effective when the sponsor is committed, when communication about what is expected is clear with good teamwork between investment and environmental and social staff, and where the national regulatory framework is strong and enforced.

SPs are least effective when the sponsor is not committed to dealing with issues covered in the SPs, where the investment departments obscure communication between environmental and social specialists and the sponsor, and where the SPs are introduced late into the project by the investment team.

The most critical variable in these equations is the sponsor. Without a committed sponsor, it is extremely difficult to achieve the desired environmental and social outcomes and involves enormous costs on the part of the specialists.

Sponsor commitment should not be confused with sponsor capacity. Capacity can be built, and there are good examples of IFC working with sponsors, many of them small national firms, to improve their environmental and social management systems. This review does not conclude that preexisting capacity is necessary for IFC to invest in a sponsor.

Therefore, because the sponsor is key, IFC should fully take into account the commitment to and capacity for addressing environmental and social issues in its business development activities. Assessing commitment and capacity on environmental and social issues should be a fundamental aspect of investment departments' due diligence of a prospective sponsor. If IFC wishes to invest in projects where the sponsor's commitment and capacity are suspect, it should be prepared to assume larger project preparation costs and lead times.

The SPs were originally conceived and written for a different audience and for different circumstances than those under which they are used by IFC today. Therefore, they must be made more specific and easy to use, with clear targets and guidelines on how to use them. At present, too often sponsors are unclear about SP intent, specialists are unclear about how far to go, and other stakeholders are unclear about how such a wide range of decisions can be accommodated within one policy's interpretation.

Although the SPs cover essential issues and partially embody principles subscribed to by IFC, there are gaps and deficiencies among individual SPs and the set of SPs. To the extent that this reflects changes in attitude toward environmental and social issues, IFC needs to be able to update, amend, and evolve the policies to remain an industry standard leader.

The present SP system relies on Environmental Assessment (EA) as the umbrella policy for managing all the other SPs and their issues and keeping them in context. This review concludes that EA quality control needs to be tightened and specifically needs to address projects coming late to IFC. Additionally, the social component of the EA needs to be significantly strengthened to provide a comprehensive approach to social issues missing in the present SP system in IFC.

This review concluded that the excellence displayed by many of the environmental and social specialists is not capitalized upon as the result of the weak system supporting the SPs, including lack of specific objectives, weak project monitoring and supervision, and poor integration of SPs into IFC's core business. The review is empathetic with the need to preserve creativity, allowing for professional judgment among IFC environmental and social specialists. However, the review was concerned about the "bunker mentality" existing in, and recognized by many within, CES (IFC's Environment and Social Development Department). Social and environmental specialists should be supported to use their judgment in applying the safeguards and in the value added that so often already exists, but this should be matched with greater openness and transparency in their decision making.

The Financial Intermediary (FI) part of the portfolio provides a microcosm of the opportunities and constraints of the present SP system. The rapid growth of the proportion of the portfolio in FIs has outstripped IFC's capacity to conceptualize an effective SP system for FIs.

The review found nearly universal praise for the training and support given by the small number of IFC staff working with FIs, but there was universal demand for more after-care services and further adaptation of the SP system to FI realities. In short, FIs want a comprehensive system, a sensible and clear SP framework, training, capacity building, support services, networking, and support for further innovation. Without it, they feel exposed and unsure what is expected of them. The excellent work carried out

IFC SHOULD FULLY TAKE INTO ACCOUNT THE COMMITMENT TO, AND CAPACITY FOR, ADDRESSING ENVIRONMENTAL AND SOCIAL ISSUES IN ITS BUSINESS DEVELOPMENT ACTIVITIES.



by IFC in this area is diminished by its inability meet demand in the context of the transformation to sustainability.

Many of the review's conclusions resonate with the ideals expressed in IFC's recent announcement of its Sustainability Initiative. As expressed by the Executive Vice President, the commitment to sustainability and to the triple bottom line that takes account of people, planet, and profits would seem to herald mainstreaming of the values enshrined in the SPS into IFC's core business. This is to be welcomed. However, this review cautions IFC that in order to mainstream environmental and social values, it will need to state explicit goals and targets, report on them, and demonstrate accountability for achieving them or not. Without these, IFC runs the risk of any enterprise in the pursuit of mainstreaming: that the quality and quality control developed in specialization is weakened in the process of mainstreaming.

## Summary of Recommendations

**IFC should ensure that in its selection of partners, as project sponsors or FIs, the commitment to positive environmental and social outcomes is proven and that a specific assessment of their capacity is included at pre-appraisal.** This commitment and capacity should be an explicit part of investment decision making and should form part of the performance criteria of investment staff and managers. Incentives should be enhanced for investment staff and managers that seek out and partner with companies demonstrating, or prepared to make, a commitment to good environmental and social outcomes as part of their business. **Choosing partners well is the key determinant for SP effectiveness and impacts.**

To manage for optimal performance of the SPS and for positive environmental and social outcomes, the system for environmental and social preparation of projects should be strengthened significantly. To achieve this, IFC must overcome the still apparent gulf between the "business side" and the "environment and social side" of the corporation. **For the SPS to have the optimal opportunity to meet their effectiveness objectives and to contribute to positive impacts, they need to be integrated well in early stages of project design and to be a tool in increasing the capacity of a committed sponsor.**

For there to be better integration, the rest of IFC outside CES needs to have ownership of the environmental and social performance of individual projects and sectors of the portfolio. **Management and senior management should be held accountable for specific environmental and social goals derived from performance at the project and portfolio level.** There need to be clear goals at the corporate, departmental, and individual levels, with corresponding accountability extended to all levels of management and investment staff.

In turn, CES needs to address its own lack of transparent and accountable procedures for implementation of policies. **CES should put in place systems that ensure that specialist decisions are transparent and peer-reviewed consistently. Department practice in interpreting SP issues should be made more available within IFC and to sponsors and affected communities. Environmental and social specialists should have clearly established performance measures of the performance of their portfolio of projects.**

These recommendations about selection of partners, ownership, accountability, and integration throughout IFC are then complemented by more specific recommendations relating to the policies and the procedures for their implementation.

This review found that a number of SP overhauls are overdue. In areas where technical, scientific and professional standards are steadily advancing, it is necessary for IFC to have in place a regular, if not continuous, monitoring and update system. This should be addressed as a matter of urgency.

More generally, the SPs should be rewritten to include support for implementation based on learning and best practice with specific guidance on interpretation, definitions, case studies and examples. The policies should be clarified and made more specific. The reworking should explicitly adapt the policies for the private sector, and guidance may take the form of specific industry-sector advice.

**If IFC wishes to continue to make the EA process the central planning tool that acts as the context for SP implementation, IFC must ensure that a comprehensive approach to social issues, including social assessment, is part of the EA process.** This review supports an integrated environmental and social assessment process as the most holistic and comprehensive approach. This should be undertaken as a matter of urgency. IFC should also ensure that it has adequate staffing arrangements to ensure that it can maintain standards and support sponsors on complex issues in the social domain.

The supervision system should be overhauled. First and foremost, where feasible, the supervision regime should build on the existing capacity and systems that the sponsor already has in place. The regime should also build on the sponsor's reporting requirements to the national governmental regulatory regime. This way, IFC's supervision system recognizes the centrality of the sponsor. By fitting the additional requirements of IFC to the existing framework of the sponsor, IFC will optimize the chances of the sponsor's fulfilling its obligations and enhance the sponsor's environmental and social management system.

**IFC should address anew the capacity it needs to support FIs to implement the demands that IFC makes of them in the environmental and social area. This will require substantial investment in training and support to FIs and in regionally based, FI-specific expertise.** IFC should develop monitoring and supervision systems specifically designed for FIs and accountabilities within FI investment staff and management for the environmental and social performance of FIs. As a baseline, IFC should examine the FI portfolio in greater depth than this review to ensure that there are no subprojects that are causing material harm as a result of lack of familiarity with, or capacity to implement, the SPs. Although a review of every FI subproject may not be feasible, a review of a sampling of FI subprojects should be undertaken.

To conclude, this review found that SPs have a positive impact when they are applied by an excellent and dedicated team of specialists and where they are integrated into a project by investment departments that are supportive of their place in IFC's mission and with sponsors already committed to their goals. In many other cases, the SPs are having positive impacts but under difficult circumstances, with investment departments wishing to move ahead quickly and with sponsors reluctant to take the time as well as make the investments necessary for the SPs to be implemented.

Clearly whom IFC works with is of critical importance, as is the extent to which IFC as an institution embraces the SPs and their goals. But the systems in place to support their implementation, both in CES as well as in IFC's business practices, are weak and fail to capture the potential benefits of the SPs and their value added to sponsors and IFC.

This review was left to speculate that, if positive things were happening due to the commitment, diligence, dedication and social and environmental leadership of some sponsors and some staff in translating the SPs to project needs, so much more could be achieved if the SPs were clearly adapted to private-sector realities, clearly explained, and made more results-oriented and where the values embedded in the SPs were fully internalized by IFC.

# I. INTRODUCTION

## **Mandate**

In the third quarter of fiscal year 2001, IFC senior management asked the Office of the Compliance Advisor/Ombudsman (CAO) to manage a review of the implementation and impact of the SPS, three years after their adoption in September 1998. IFC's Board of Directors asked senior management to discuss with them their reactions to the review and to indicate what actions they will take as a result.

## **Structure**

### *The office of the CAO*

The CAO is the independent accountability mechanism for IFC and MIGA. Its mandate is to provide IFC with policy and process advice on environmental and social performance, to conduct environmental and social compliance audits and reviews as an aid to institutional learning, and to receive complaints and—through an Ombudsman mechanism—seek to resolve issues for people who are directly, or likely to be directly, affected by IFC and/or MIGA projects. Governed by the disclosure policies of IFC, the CAO works on the presumption of maximum transparency.

### *The review team*

The CAO assembled a review team composed of evaluation and environmental and social specialists, familiar with the SPS, IFC, and field-based case study approaches, desk review, survey, and other evaluation methodologies. With regard to the independent consultants recruited by the CAO, none of the team had conflicts of interest with the IFC portfolio, past or present; nor did any of them intend to undertake work for IFC immediately after completion of this review.

## Coverage

This review addresses the set of SPs introduced and adopted by IFC; their interpretation in IFC; and their implementation, effectiveness, and impact.<sup>1</sup> The review examines the procedures and management systems established to ensure the interpretation, implementation, and effectiveness of the SPs. The review looks back over a three-year period. To establish a base line for comparative purposes, the review also looks at policy and practice prior to that period when the SPs were used but not formally adopted by IFC.

## Audience

The first audience of this review is the senior management of IFC. However, the review has information and lessons for all of IFC. The review is also a contribution to the Board of Directors' ongoing examination of the SPs and development effectiveness.

This review will also be of use to the Bank as it considers a new framework for the SPs and for MIGA as it moves forward with its interim SP framework. Furthermore, as the different parts of the Bank Group increasingly coordinate their efforts to harmonize policies and standards, the review will provide some of the first system-wide analysis of SP effectiveness and impact.

Although this review addresses policies specifically implemented within the context of IFC's business model, the review may be of interest to other multilateral development banks and export credit agencies as the move continues toward developing common principles in environmental and social standards.

This review will be of interest to IFC's sponsors as well as the firms and financial institutions with whom IFC works and upon whom IFC is ultimately reliant for the environmental and social performance of its lending.

Last but not least, this review will be of interest to nongovernmental organizations (NGOs), community groups and communities who in the past have played a critical role in the development of the SPs, their concept and detail, and who look toward the policies, sometimes in the absence of other information and measures, to seek reassurance that the projects undertaken will do no harm and will enhance the development of their communities and regions.

THE REVIEW MAY BE OF  
INTEREST TO OTHER  
MULTILATERAL DEVELOPMENT  
BANKS AND EXPORT CREDIT  
AGENCIES AS THE MOVE CON-  
TINUES TOWARD DEVELOPING  
COMMON PRINCIPLES IN  
ENVIRONMENTAL AND SOCIAL  
STANDARDS.

## II. BACKGROUND

### Purpose

The purpose of the review was twofold: first, to independently assess the effectiveness and impact of IFC's Safeguard Policies (SPs) three years after their adoption; and second, to draw conclusions and make recommendations on the SPs and their system of application so as to ensure that they achieve their objectives.

### Context

The review took place at a time of transition for IFC. The environment in which IFC works—in terms of a shifting development paradigm, the role of private finance in developing emerging markets, and the changing landscape of competition—puts external pressures on IFC. These have been matched by internal shifts represented in successive strategic directions papers, the evolution of IFC's business products, and the recent commitment to sustainability and the triple bottom line. This section outlines the context in which this review projected its analysis, conclusions, and recommendations.

### *Internal change*

Internal change in IFC has been substantial in the three years under consideration in this review (September 1998–September 2001). The change has resulted from assessment of the ever more competitive market in which IFC operates, changing development and investment landscapes, the emergence of parallel moves within the private sector toward sustainability and corporate social responsibility, and more nuanced approaches to reputational and business risk within IFC as well as the financial services industry more broadly.

New products have been continuously introduced, especially in treasury and financial markets activities. The introduction of global product groups throughout the World Bank Group was designed to maximize the potential synergies between IBRD/IDA and IFC activities.

IFC emphasized certain industry sectors throughout the period of the review, including infrastructure, health and education, and telecommunications. Other sectors were subject to greater integration throughout the World Bank Group as Global Product Groups. These included oil, gas, chemicals and mining. Frontier markets received priority during the period reviewed, involving IFC in projects in difficult investment environments. Therefore, with internal changes and new strategic directions, the shape of IFC's portfolio altered between 1998 and 2001.

**STRENGTHENING IFC'S ENVIRONMENTAL AND SOCIAL APPROACH.** Just over a decade ago, IFC had no formal environment or social approach or capacity. At that time IFC relied on the World Bank to perform the environmental review of IFC projects. With the beginnings of environmental assessment of IFC projects came the informal application of the World Bank's safeguards, which served to provide some guidance to the first environment staff within IFC. In 1993 IFC developed an environmental review procedure to follow the Bank's approach to social and environmental policies. Only in 1997 did the Bank categorize ten social, environmental, and legal policies as Safeguard Policies and a year later IFC adopted nine of the Bank's ten policies as its own Safeguard Policies. (The World Bank has a safeguard policy on disputed territories while IFC uses its Legal Department and loan agreements to take this into consideration. IFC also has a safeguard policy on child and forced labor, which the Bank does not.) IFC hired its first social specialist in 1996. In the last five years, IFC has sought to bring in house its social development capacity and has built a small team of social specialists to work within CES. Only in the last four years has IFC formally implemented the SPS. The pace of change reflects both external and internal drivers of change and is now complemented by management's stated commitment to sustainability.

**COMMITMENT TO SUSTAINABILITY.** In the Strategic Directions paper approved by the Board in May 2001, IFC first made explicit reference to its plans for and commitment to the concept of "sustainability," namely a move toward a triple bottom line approach—measuring people, planet, and profits.<sup>2</sup> In the same year, IFC commissioned a "footprint audit" to assess the impact of IFC on the environment and the communities within which it is based.

**FINANCIAL INTERMEDIARY SHARE OF PORTFOLIO.** The proportion of IFC's portfolio invested through FIS is increasing, from 28 percent in FY 1998 to 34 percent of project financial commitments in FY 2002. This is planned to bring IFC's product and services into new and frontier emerging markets. FIS provide a more appropriate and flexible response to developing a sustainable private sector. The development of sound financial markets helps meet the needs of national companies and small and medium-sized enterprises (SMEs). However, the pace of growth in the FI portfolio has not been matched by increased capacity in the environmental and social investment of IFC in its FI partners (see Chapter 6). During the period covered by the review, 10 percent of approximately 30 professional level staff in CES work on FI projects.

IN MAY 2001, IFC FIRST MADE  
EXPLICIT REFERENCE TO ITS  
PLANS FOR AND COMMITMENT  
TO THE CONCEPT OF "SUSTAIN-  
ABILITY," NAMELY A MOVE  
TOWARD A TRIPLE BOTTOM  
LINE APPROACH—MEASURING  
PEOPLE, PLANET, AND PROFITS.

**EVOLUTION IN MONITORING AND EVALUATION.** In the period covered by this review, IFC significantly strengthened its monitoring and evaluation process. This was the result of both new approaches developed by the Operations Evaluation Group (OEG) and of innovations within CES. OEG now measures effectiveness by synthesizing financial rate of return, economic rate of return, and environmental and social compliance. Within CES, an environmental and social risk rating (ESRR) tool has been introduced, not as an evaluation mechanism, but as an indicator of where monitoring and supervision effort needs to be focused. Together with attempts to introduce quality management tools, this approach marked a shift in thinking toward assessing process and results.

### *External change*

At the same time that IFC changed, the external business climate in which IFC operates changed. The concepts of environmental and social risk, corporate social responsibility, and best practices in terms of community engagement, social assessment, and environmental impact have continued to take hold. Voluntary industry initiatives abound, and the role of international institutions is evolving. Moving these trends forward is under discussion at the United Nations and within multilateral financial institutions (MFIs). OECD, the G8, and regional development banks have all dealt with aspects of the issues.

At the same time, commercial banks are actively looking at environmental and social risk assessments and are watching the performance of environmentally, socially, and ethically responsible investment funds carefully.

IFC itself has shown that these are not just the concerns of the large multinationals burned by failure to recognize reputational risks following environmental or social disasters. In its recent co-publication *Developing Value*,<sup>3</sup> IFC shows that these are concerns embraced by firms in emerging markets.

These external changes have also found specific expression in a number of processes for evaluating World Bank Group performance, directly or indirectly. The recent report of the World Commission on Dams critiqued, among other things, the manner in which social and environmental due diligence is carried out for large dam projects and the way in which local people and multiple stakeholders are engaged.<sup>4</sup> At the same time the review was under way, the World Bank Group President also initiated a review of the extractive industries activities of the Group.<sup>5</sup> It is expected that this review will make recommendations about how the World Bank Group should engage in this sector, given its mission of poverty reduction premised on sustainable development.

# III. METHODOLOGY

## Objectives

The review objectives, stemming from the mandate of the review, were laid out in the approach paper.<sup>6</sup> They were to assess the impact and effectiveness of the SPs and their causes, identify gaps and deficiencies, and make recommendations about improving effectiveness and impact.

Such broad review objectives necessitated building a picture not only of the portfolio of projects where the policies had been applied—the extent and manner of their application, the way in which they were interpreted, how IFC judged compliance, and the impacts of the policies and their interaction with other policies in IFC—but also the management system that supported or constrained their application and effectiveness and that gave value to them within IFC’s core business. This review looked at the ESRP, guidelines, and other SP guidance materials as part of understanding the larger SP system but did not review or make recommendations on these materials *per se*. The review also considered the interplay of the many actors engaged in projects, from IFC to the project sponsor, other investors, the government regulator, civil society groups, and local communities.

## Approach

This review took a comprehensive approach, using multiple methodologies and sources of data, to build a picture of what was happening and why—at the project, policy, and system levels. As we note later in this chapter, establishing causality is a dilemma. Using multiple data sources and a case study approach, we hoped that multiple perspectives would ensure a more accurate picture.

### *Review components*

The review used multiple components and compared their findings to develop greater understanding of the effectiveness and impact of the SPs and the factors that enhanced or inhibited their effectiveness and impact.

**PORTFOLIO REVIEW AND DESK REVIEWS.** This review examined key policy documents for most Category A, B, and FI projects approved by IFC since September 1995 (three years before the adoption of the SPs). This totaled 601 Category A and B and 190 FI projects. The portfolio review helped ascertain the size of the portfolio of projects with SP issues as identified by IFC, as well as the state of documentation of those projects and their SP issues. The review also aided the selection of in-depth desk review and case study projects.

*This chapter aims to explain how we know what we know. The review’s objectives led to a systems analysis approach with a number of key components. There are dilemmas posed by any methodology. Here the review addresses them head-on.*



## DEFINITION OF PROJECT ENVIRONMENTAL CATEGORIES

**Category A:** A project is classified as Category A if it is likely to have adverse environmental impacts on people and important environmental areas that are sensitive, diverse, or unprecedented. Category A projects require a full EA document, normally an Environmental Impact Assessment (EIA).

**Category B:** A project is classified as Category B if its potential adverse environmental impacts on people and environmentally important areas are less adverse than those of Category A. Category B projects require an EA document. The EA findings must be summarized in an Environmental Review Summary (ERS).

**Category C:** A project is classified as Category C if it has minimal or no adverse environmental impacts. No further actions are required.

**Category FI:** A project is classified as FI if it involves investment of IFC funds through an FI in sub-projects. There are three subcategories of FI project, depending on the kind of financial institution and financial product involved.

- 1 FI – 1 projects involve investment of IFC funds that are not targeted at specific subprojects.
- 1 FI – 2 projects involve investment of IFC funds that are targeted at specific sub-projects.
- 1 FI – 3 projects involve investments when IFC is the lender of record of sub-projects.

**CASE STUDIES.** Balancing depth against breadth, this review selected 25 projects as case studies. The case studies anchored the review. Within the 25 projects that were selected, the review tried to obtain a range of projects in terms of environmental category, region, industry, size, complexity, relevant SPS, and approval dates both before and after the SPS were formally adopted in September 1998. The main criteria for selecting case study projects was the extent to which they provided maximum information on SP impacts and effectiveness. This meant that the projects selected tended to involve several SPS or have difficult or complex SP issues. The case study projects are not a random sample, nor are they typical of the IFC portfolio; but they do provide a good measure of SP effectiveness and impacts.

This review used standard project evaluation methodology for the 25 case study projects. For the 15 environmental category A and B projects, review team members visited the projects for three to six days each, including visits to project sites and nearby areas and interviews with sponsor management and staff, including those responsible for environmental and social issues, project-affected people and other local communities, local NGOs, government officials, and anyone else knowledgeable about the impacts of the SPS in that project. For the 10 FI projects (six FI-2, one FI-1, and three FI-1/FI-2 projects), given that each FI could have up to several dozen sub-projects, it was not deemed possible within the constraints of the review to visit FI sub-projects in all cases. Instead, for most FI projects, the review limited its field research to the FI headquarters to meet with FI management and staff responsible for social and environmental issues and to examine documentation on the FI's environmental management system, reporting requirements, monitoring of sub-projects, training, and other SP issues. To ensure consistency and comprehensiveness of data collection, data for each project were recorded in a standardized project questionnaire and coding instrument.

DISTRIBUTION OF 25 FIELD STUDY PROJECTS																			
Sector	Sub-sector	Sub-Saharan Africa			Latin America & Caribbean			East Asia and Pacific			Central & Eastern Europe			South Asia			Southern Europe & Central Asia		
		A	B	FI	A	B	FI	A	B	FI	A	B	FI	A	B	FI	A	B	FI
Agribusiness	Seafood Products					1													
Agribusiness	Natural Fibers		1																
Industry	Aluminum	1																	
Industry	Cement							1											
Industry	Iron & Steel											1							
Infrastructure	Water & Waste				1														
Infrastructure	Highway Operations								1										
Mining	Zinc					1													
Mining	Copper	1																	
Oil & Gas	Oil & Gas Production																	1	
Power	Diesel & Gas	1																	
Manufacturing	Pulp & Paper											1		1					
Manufacturing	Wood Products								1										
Tourism	Resort Hotel		1																
Financial Markets	Bank			4			2			2			1						
Financial Markets	Fund			1															
<b>Total</b>		<b>3</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>2</b>		<b>2</b>	<b>1</b>	<b>1</b>				<b>1</b>	

Category A = 7

Category B = 8

Category FI = 10

Total = 25

**REGIONAL STAKEHOLDER WORKSHOPS AND THE GLOBAL MEETING.** External consultations consisted of four regional stakeholder workshops and one global meeting. The regional stakeholder workshops took place in Montevideo, Budapest, Cape Town, and Manila during February and March 2002. The workshops were designed as focused data collection exercises, seeking reflections on experience of what worked and did not work and why from project sponsors, community groups and NGOs engaged with IFC projects, consultants familiar with IFC's SPs and their implementation, and government officials with oversight and regulatory responsibilities for environmental and social performance. The workshops were small (around 20 participants in each) and were externally facilitated. The reports of the workshops have been produced as stand-alone products.<sup>7</sup>

This review convened a global meeting of policy experts to analyze the SPs and other compliance and sustainability systems at the global level.<sup>8</sup> The experts came from other international financial institutions, partner banks, NGOs, consulting firms, bilateral aid agencies, and industry. The format of the global meeting was similar to that of the regional workshops.

**THE WEB SITE AND PUBLIC COMMENT.** By introducing new Web software allowing for individuals to communicate directly with each other through the SP review pages on the CAO Web site, this review placed a premium on engaging stakeholders directly in the review process. The draft approach paper was posted on the Web site for public comment. A series of discussion questions were developed to solicit input during the data collection stage.<sup>9</sup> The draft final report—in English and Spanish—was posted and disseminated for comments.

**STAFF SURVEY AND FOCUS GROUPS.** This review sought to gather views of the internal constituencies in IFC. A staff survey was developed with the assistance of IFC's information technology group. The survey was pilot-tested by 10 IFC investment officers and environment, social, and legal specialists. The survey was distributed electronically for 10 working days; and 247 staff and management in the investment, legal, and environment departments answered the survey questionnaire.<sup>10</sup>

Two focus-group discussions were convened. The first focus group included investment officers and lawyers. The second contained environmental and technical specialists. The focus groups concentrated in greater detail on a sub-set of questions from the staff survey. The focus groups provided detailed insight into the differences between environment and investment department perspectives and the dynamics between the two groups.

**REVIEW ADVISORY GROUP.** A review advisory group (RAG) was brought together to provide important guidance and perspective to the CAO and the review team throughout the period of the review. Composed of individuals from within IFC and from other stakeholders, the RAG met a total of five times.<sup>11</sup>

## Concepts of Effectiveness and Impact

In this review, the concepts of effectiveness and impact are of central importance. Effectiveness is defined as the extent to which the SPs, in the way in which they have been interpreted and implemented, have been effective in achieving their desired result. This is necessarily subjective as the majority of the SPs have only vague assertions as to their goals, and the management system established around the environmental and social review procedure does not stipulate targets beyond that.

A central theme of this review is the extent to which the SPs had positive impacts. Impact is defined as the outcomes on the ground from implementing an SP. These could be negative or positive, intentional or unintentional.

## Dilemmas Around Causality

It was difficult for this review to determine causation in the impact and effectiveness of the SPs. It is difficult to observe or determine which outcomes could be directly attributed to the policies. The review only examined implementation of the SPs to the extent that they affected effectiveness and impact. The counterfactual assumption—that is, the same projects without safeguard policies—does not exist.

Whenever possible, this review has identified the causes of impacts or outcomes. This was achieved by assessing critical factors, of which the SPs and their implementation were but one. This assessment included SP factors (e.g. clarity, comprehensiveness, overall SP framework), IFC factors (e.g. management, investment department attitudes and behaviors, CES capacity, CES-investment officer teamwork), sponsor factors (e.g. attitudes and behaviors, management commitment and capacity, environmental management system), project-affected people and NGO factors (e.g. knowledge about the project, public consultation and information disclosure, influence on the project and its outcomes), and governmental factors (e.g. regulatory framework and enforcement capacity).

There is complexity here, but in Chapter 8 (Conclusions), the review takes a proactive position on this analysis. This report challenges any simple assumptions that positive social and environmental outcomes of IFC projects are mainly due to the SPs themselves.

# IV. FINDINGS ON IMPACT AND EFFECTIVENESS

*This chapter describes the current SPs, procedures, and implementation system. It then lays out what the review has learned about their effectiveness and impact and the way in which the system that supports their implementation supports that effectiveness and impact.*

## Today's Safeguard Policies

Prior to the adoption of the suite of SPs in September 1998, World Bank policies were used as guidance for project preparation. However, on adoption, IFC committed itself to the application of SPs in all future projects as appropriate.

The SPs were adapted from those in place at the Bank. Since that time, the Bank has been engaged in a process of policy conversion and has been reviewing and revising individual policies. To date, IFC has held in abeyance its revision of individual policies, pending the results of the Bank's revision process. IFC also stated that it would suspend any reviews or revisions pending the results of this review.

In addition to the SPs, CES works with other elements of an environmental assessment framework. These include the *Pollution Prevention and Abatement Handbook*, guidelines, and guidance notes such as, for example, the recently introduced guidelines on the transportation of hazardous waste and a good practice note on HIV/AIDS.<sup>12</sup> Why some issues are dealt with by a policy and others by guidelines or guidance notes is not obvious nor widely understood outside of CES. This fragmentation undermines SP guidance and ultimately SP effectiveness and impacts.

Although policies would seem to be a stronger tool than guidelines, once specific criteria, standards, or requirements are included in the contractual agreements between IFC and the project sponsor, the content is equally binding.

## Today's System for Ensuring Compliance

### *Environmental and social procedure and management system*

IFC first began using an environmental and social review procedure in 1993. The Board of Directors adopted the SPs for IFC in September 1998. In December 1998, IFC amended a Procedure for Environmental and Social Review of Projects (ESRP), originally adopted by management in July 1998.<sup>13</sup> The ESRP guides IFC's implementation of the SPs. The ESRP is due to be reviewed following the publication of this review on the SPs.

In March 2000, CES instituted a Quality Project Management (QPM) system. This system is a management tool for specialists in the department as they implement the policies within the ESRP. It sets targets and benchmarks for the completion of tasks within then review process in order to create uniformity of project and implementation information throughout CES.

In 2001, CES introduced an Environmental and Social Risk Rating (ESRR) system. Also a management tool, the system aims to identify which projects are not reporting in accordance with the agreements reached between the sponsors and IFC in the loan documents, according to their categorization, and to identify those projects that may be at greater risk of noncompliance and that therefore should receive greater supervision.

OVERALL THE SPs ARE  
HAVING A POSITIVE EFFECT  
AND CONTRIBUTING TO  
POSITIVE ENVIRONMENTAL  
AND SOCIAL IMPACTS.

The trend is toward development of management tools to support the work of CES in implementing the SPs and to track environmental and social performance of projects in the portfolio. This review did not examine in depth the extent to which these tools are being used or are having an impact on performance.

### *Team approach*

In FY2002, IFC introduced incentives for investment officers to work in a team-based approach to project development. The focus on teams was intended to ensure that each member of a project team takes responsibility for each aspect of the deal, including environmental and social issues. This was reinforced by the introduction of sustainability issues in the competency framework for assessing the performance of investment officers.

At the same time, a CES reorganization allocated sectoral specialists to industry departments and placed specialists in each of the regional hubs (Hong Kong,<sup>14</sup> New Delhi, and Sao Paulo). Environmental specialists were already stationed in Africa (in Nairobi, Harare, and Dakar) and in Europe.

## **Impact and Effectiveness**

Overall the SPs are having a positive effect and contributing to positive environmental and social impacts, although there is no counterfactual situation (no safeguard policies) for comparison. To understand why the SPs have this effect, why they are not having a greater effect, and what works and what doesn't is the story of the interaction among the sponsor or FI, the investment team, and the environmental and social specialists, given the host government's regulations and, in some cases, the engagement of communities and civil society (see figure 1).

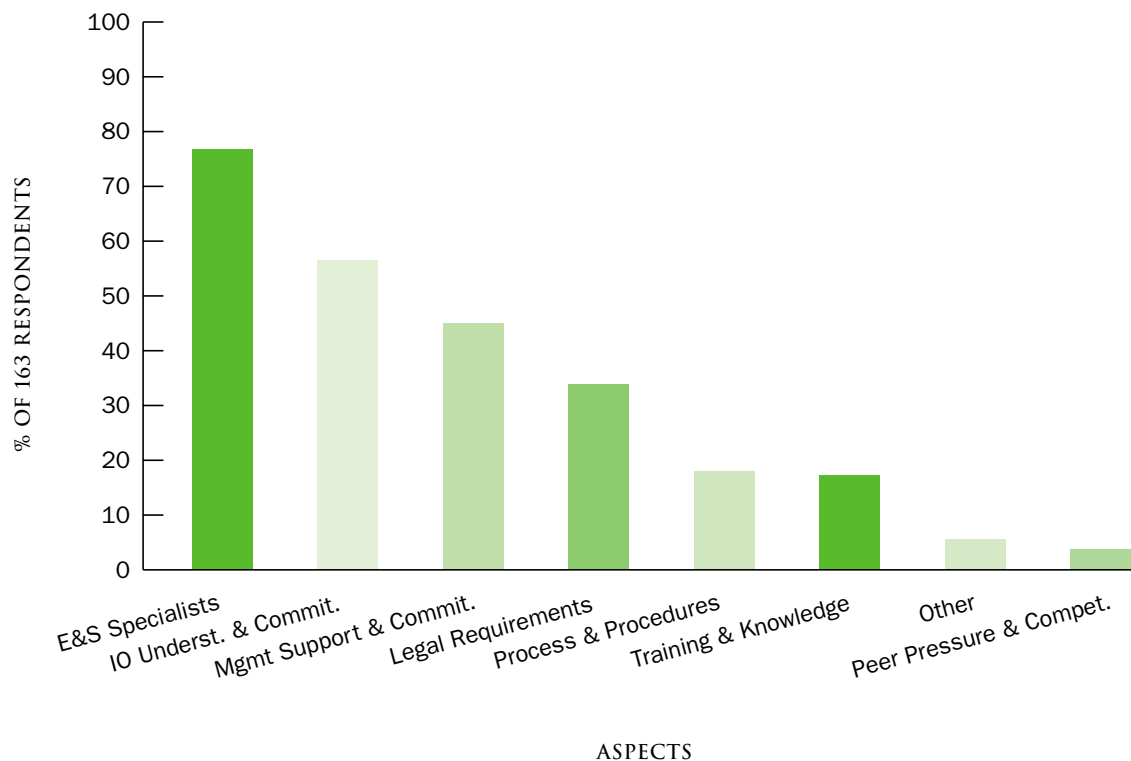
The review found examples of committed sponsors that were already well ahead of the SPs, with integrated environmental and social management systems; sponsors who were committed to environmental and social outcomes where IFC helped build their capacity; sponsors who were recalcitrant and were brought into compliance; and sponsors who are still not in consistent compliance and show little desire to be so. The review found cases where the investment teams communicated the reason for SPs and their importance to IFC early on and cases where the concepts were raised by specialists well into project discussions. The review found cases where the investment teams and specialists worked well together to solve problems and cases where a Cold War atmosphere prevailed between the two. In summary, the review found that IFC's approach to the SPs ran the gamut. Although the majority of cases studied and projects reviewed showed IFC working well, there were extremes, both negative and positive.

**These wide-ranging findings indicate that necessary systems in place to guide the implementation and interpretation of the SPs are either lax or absent. If a weak SP system is having a positive effect, a strong SP system can be expected to improve effectiveness significantly. If IFC is able to achieve a positive effect without a systematic approach, consistent and better results could be achieved with a stronger system.**

### *Safeguard Policies*

**IMPACT ON PROJECT OUTCOMES.** In each of the 25 case studies undertaken by this review, the application of the SPs did seem to have a positive impact. However, this did not necessarily mean that in all cases the outcomes were positive. In some cases, outcomes were less negative. For example, in three case studies, the SPs have meant that environmental assessment was introduced as a planning tool in sectors and markets where it was not in common usage before, and this led to wider adoption by government

FIGURE 1. MOST IMPORTANT IFC FACTORS FOR SUCCESSFUL SP OUTCOMES



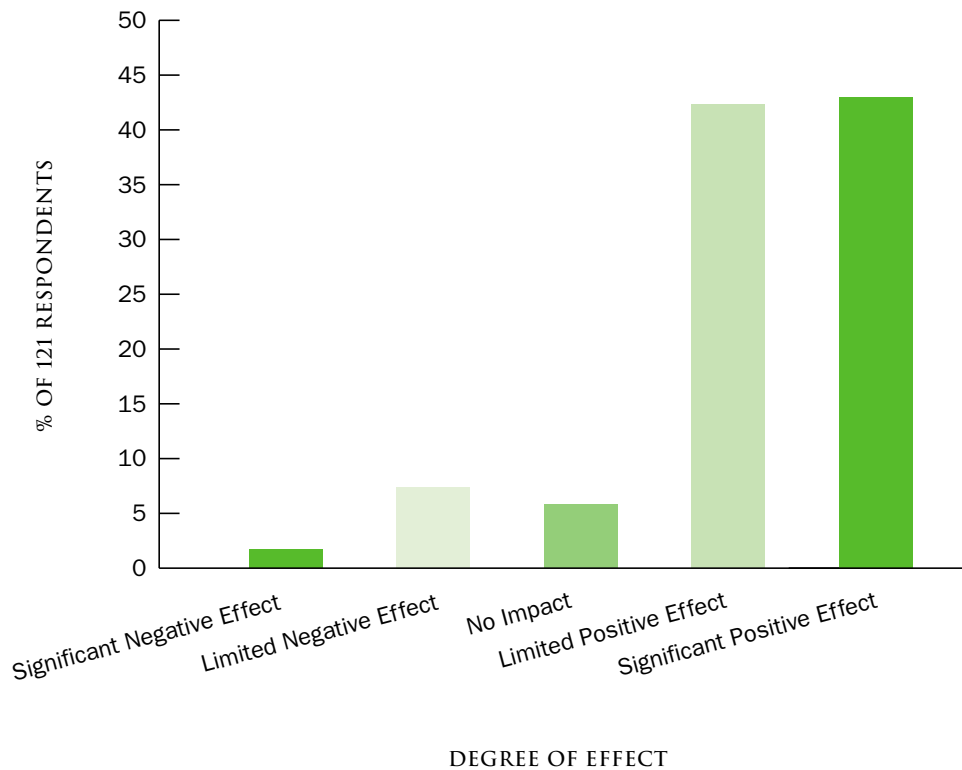
authorities. Beyond the policy on environmental assessment, individual policies have also meant better project design (location and type of tailings dams), adoption of cleaner technologies and processes (water treatment and discharge), improved worker safety rules, and broader public consultation. IFC’s application of its policy on involuntary resettlement is strengthening some government, sponsor, and FI approaches through a demonstration effect.

The staff survey reinforced the finding that the SPs are having a positive impact on project outcomes: Forty-three percent of staff surveyed believed that they had a significant positive impact, and 42 percent believed they had a limited positive impact (see figure 2). The vast majority of respondents thought that the SPs are very effective (41.7 percent) or somewhat effective (50 percent) in mitigating the environmental and social impacts of projects. Only a few respondents believed that the SPs are not very effective (7.2 percent) or not at all effective (1.4 percent). Respondents believed that the SPs added value through improved monitoring and compliance with environmental and social requirements (60.5 percent), improved project design (48.1 percent), increased development impact (41.4 percent), and transfer of knowledge (40.7 percent). Only 4.9 percent of the respondents thought that the SPs had not added any value to projects.

It is difficult to determine the impact of the SPs on the FI portfolio. This point and others related to Financial Intermediaries are discussed in greater detail in Chapter 8.

The review found that in most cases, the most significant factor for positive impacts was the sponsor. Respondents to the staff survey most frequently (84 percent) believed that sponsor commitment and capacity was one of the three most important factors.

FIGURE 2. SP EFFECTS ON PROJECT OUTCOMES



IFC pressure and supervision was a distant second (45 percent), and no other factors (government, NGOs) were cited by more than 15 percent of the respondents. This finding is discussed in more detail in later chapters but is important here to sketch out its significance.

That the sponsor is the most significant factor in determining a positive impact (outcomes on the ground) does not mean that IFC or the SPs are not important or that they don't have any influence. It means that in cases where IFC has a significant influence on project design—for example, without a sponsor's commitment—impacts may not have been so positive. Therefore, good outcomes are not, in every case, primarily attributable to SPs, environmental or social specialists, or IFC. Some outcomes, such as sponsor activities that began only after IFC engagement, can be attributed to the SPs with a fair degree of confidence. Sponsors initiated other actions on their own before any IFC involvement, so the outcomes of those actions are probably not due to the SPs. Other outcomes resulted from the interplay of multiple factors: the sponsors' own policies and their intentions in the areas covered by SPs, the impact of host government regulations, or pressure by locally affected communities and NGOs, partners of sponsors that included multinational corporations, and other factors.

That the sponsor is the most significant factor also means that SPs that are not specific and a weak management system for their implementation may not lead to negative outcomes as long as the sponsor performs well.

**THE VALUE OF SPECIFICITY.** In several case studies, supported by workshops and other sources, the review found that the clearer IFC expressed its expectations of the spon-



sor with regard to SP implementation, the easier the demands were understood and the better their implementation. Additionally, the review found that the clearer and more specific the policy was, the more consistently it was applied by IFC specialists.

Lack of clarity meant that in the case studies most, if not all, sponsors were not sure what was expected of them. For example, three case studies revealed that involuntary resettlement was not applied because sponsors and FIs did not realize it applied to their particular circumstances. Two of these cases were later caught by IFC or auditors. Another case study sponsor, obtaining its timber supply from indigenous people in government-owned forests, was ignorant of policies regarding both indigenous peoples and forestry.

Throughout the SPs, key concepts are not sufficiently defined either generically for the reader or specifically in interactions between IFC and the sponsor. The review found that on some issues there was variance between environmental and social specialists on definitions. Therefore, it is not surprising that investment staff and sponsors may be unclear as to what is expected.

Staff survey respondents thought that the international waterways (42.5 percent), involuntary resettlement (41.0 percent), and indigenous peoples (36.8 percent) policies most often caused substantial difficulty for sponsors trying to interpret the requirements. The child labor policy (16.2 percent) least often caused substantial difficulty. Most respondents believed that all the SPs (except child labor) caused either moderate or substantial difficulty (54 to 72 percent).

In each case study, the review found that the implementation of policies would have been strengthened by clear, concise, easily accessible guidance on the policies and their purpose with key definitions, how-to material, examples, and contact numbers included for support.

Not surprising, given their origins, the SPs are long on process and short on specific targets. For example, the indigenous peoples policy does not specify who is affected, how they are affected, or what specifically should be done to mitigate the impact. This sets SPs at odds with the national regulations, even if they are weaker, with which sponsors must comply. For example, most governments offer compensation to displaced people but do not have a policy to help them restore their previous incomes and living standards. The purpose of the process is not clearly expressed.

**DEMONSTRATION AND MULTIPLIER EFFECTS.** At least eight case studies showed that SPs do have multiplier effects by introducing government regulators, sponsors, and industry sectors to best practices. In one case, the sponsor's use of the SPs was able to influence the suppliers and producers so that the best practice was passed on through the supply chain. In another case, the government used the EA prepared for the project as a model and example for other private-sector projects.

One FI case study and one FI from a regional workshop used the SPs and the EA framework as a way of influencing the behavior of clients and to educate future clients by taking a proactive approach to ensuring that subproject sponsors adopted the same standards.

The review found sponsors in every region who were implementing best practice social development innovations and environmental management systems that go far beyond what IFC asks of its partners in the SPs or in its more recent "value added" activities.

### *IFC operational issues*

**ROLE OF SAFEGUARD POLICIES IN PROJECT SELECTION.** The case studies and desk reviews showed that IFC does decline projects because of SP issues. The staff survey and

focus groups also revealed that some managers instruct staff to avoid projects that may have significant SP issues as represented by Category A status. The majority of survey respondents thought that SPs were rarely (46 percent) or occasionally (38.9 percent) a major factor in IFC's declining to fund a project. Only a small number of respondents thought that SPs were often (7.9 percent) or not at all (7.1 percent) a major factor. Sponsors also declined IFC project funding because of the SPs. Respondents thought that SPs were only occasionally (35.6 percent) or rarely (34.7 percent) a major factor for sponsors declining IFC funds. Only a minority of staff thought that SPs were not at all (16.9 percent) or often (12.7 percent) a major factor in sponsors declining IFC funds. Workshops reflected a perception that some projects do not come to IFC in the first place because of the SPs.

The portfolio review and interviews with specialist staff revealed that decisions about categorization may be inconsistent and nontransparent. From the portfolio review and desk studies, the staff survey, and the focus group meeting with investment officers, the review can confirm the existence of “the big B phenomenon,” wherein projects are categorized as B to avoid the additional requirements of category A, which are mainly public consultation, analysis of feasible alternatives, and a more thorough EA document.<sup>15</sup> If an A categorization cannot be avoided, IFC often avoids the project altogether. This phenomenon is more common in some sectors and regions and was supported by investment staff and some sponsors. Some projects automatically attract a B categorization because of their type, when the individual nature of the project may demand an A. For example, not all seafood production projects should automatically be either category A or category B. Some new products, such as corporate loans, should also not be automatically categorized as B. Categorization should depend on project-specific issues. At least three of the eight case studies categorized as B probably should have been categorized as A.

The review found evidence of all of these trends, which suggests that there are real costs in applying the SPs and to taking a project, getting it into compliance, and clearing the hurdles on a category A project that may need significant environmental and social mitigation measures. For example, SPs can delay projects. In the staff survey more respondents thought that project delays attributable to SPs were limited (42.8 percent) or moderate (33.1 percent) than substantial (20 percent). Another 11.8 percent said that they did not know the extent to which projects were delayed, and only 4.1 percent said that there were no delays. Although the staff survey showed broad acceptance of the SPs, the review also found frustration in the staff survey and focus groups that projects where IFC might have significant development impact were sometimes avoided, either because the scope of a policy would make the project prohibitively difficult or because individual managers are wary of policies with complex SP issues.

Of greater concern still, this review found cases where the political importance of the deal meant that due diligence was rushed, corners cut, sponsors hurried, and effectiveness and impact compromised. In two cases, CES acceded to management and cut corners. In several other cases, concerns were raised from within CES, and these were ignored. Some policies, more than others—including the involuntary resettlement, natural habitats, and forestry policies—demanded considerable preparation and lead time.

**DIFFERENCES BETWEEN THE PRE- AND POST-1998 SAFEGUARD POLICY ADOPTION.** The case studies and the desk reviews looked at projects both before and after the 1998 adoption of the SPs. The review did not find a major shift in practice or impacts between the two time periods. Rather, the review found a steady progression and evolution of practice that would seem to reflect the gradual strengthening of IFC capacity to identify and implement SP issues—for example, the hiring of social specialists. This

finding would also seem to reinforce the point that the SPS are not the most important factor in influencing outcomes, perhaps due to the fact that CES has been guided by the ESRP and the SPS since 1993. In 1998 CES formalized some processes but did not adopt wholly new processes.

This review did find a marked improvement in one specific area. CES's attention to public consultation and CES-triggered sponsor attention to public consultation were much greater in the post-1998 period. This was clearly evident in several case study projects. In other case study projects, sponsors appear to have done this at their own initiative. This improved focus was confirmed by the regional workshops. The review suggests that the improvement may be due to increased disclosure of ERS documents for category B projects, as well as bolstering the ranks of IFC social specialists as opposed to the SPS themselves.

**FLEXIBILITY AND INFLEXIBILITY.** Specialists admit that they apply different standards of compliance to sponsors, depending on their sense of the sponsors' commitment to SP issues. Similarly, they are clear that the SPS in their generality, and the nature of the projects in IFC's evolving portfolio, demand flexible implementation. This professional judgment is the most precious commodity within CES. The review examined the question of flexibility, or professional judgment, to the extent that it had a bearing on effectiveness and impact.

Flexibility can be both positive and negative. In some policies—for example, involuntary resettlement—the policy is specific, and strict interpretation is possible. The review found cases where investment staff would have welcomed more flexibility from social and environmental specialist staff. Of greater concern is the degree of flexibility shown to a large company with which IFC wants to do future business, compared with the burden placed on a small or medium-sized enterprise (SME) with an “inflexible” approach to a policy issue. In these case studies, the project costs to the SME soared as a result of delay. Although this was exemplified in two case studies, the pattern was confirmed in the staff survey and focus groups. Some rights should not be flexible, such as the right to information and public consultation. But many processes and approaches should be flexible as long as the ultimate objective is served.

More importantly, investment staff expressed concern in the survey and focus groups that the parameters for specialist flexibility were not transparent and that no justification needed to be given for the interpretation or approach taken by the specialist, irrespective of impact on project costs. The review found that widespread support for the logic of professional judgment and “appropriateness” within IFC is being undermined by the sense that specialists do not need to explain or justify their decisions.

The review also found that flexibility in the positive sense is undermined by CES's limited learning, peer review, and group processes. Individual innovations in policy implementation and practice are not necessarily consolidated and built upon to improve the collective performance of the department and the SPS. In 2000, CES initiated a peer review process, a de facto acknowledgment of the problem, which is applied to all category A projects but only on request for category B projects.

**PUBLIC CONSULTATION AND DISCLOSURE.** All sources of the review found that the quality of public consultation influenced the effectiveness of the safeguard policies and project outcomes. Survey respondents believed that public consultation resulted in changes to the project to a limited extent (35.1 percent), regularly (38.2 percent), or extensively (12.2 percent). Only a minority (14.5 percent) answered that consultations did not result in project changes. Part of the reason may be because public consultation was more often limited than regular or extensive. Staff survey respondents believed that consul-

tations with communities and stakeholders were conducted to a limited extent (44.1 percent), regularly (34.3 percent), or extensively (20.1 percent). Only 1.5 percent of the staff answered that there were no consultations. Perspectives, issues, and concerns of external stakeholders can only be surfaced through effective consultation. Issues that could be addressed through the SPs may otherwise be missed.

In the regional workshops, sponsors, government authorities, NGOs, and community groups agreed that the public consultation process was essential in ensuring that each stakeholder had sufficient knowledge about, and input into, the project and therefore could participate meaningfully. All workshops referred to many projects that had inadequate public consultation processes, and this was confirmed by at least five case studies. At least three case studies did have adequate public consultation. The other seven projects were categorized B and therefore did not require public consultation, and available information was insufficient to determine the adequacy of public consultation that was done.

The same sources described the shortcomings of public consultation in several projects. Too often public consultation occurred too late to affect project design, did not facilitate local stakeholders' understanding of the project and ability to express their concerns, allowed insufficient time for stakeholders to process the information and provide thorough feedback, and was not sustained after project approval. Stakeholders did not receive feedback from IFC or those doing the public consultation. Some sponsors admitted that they did not know how to do effective public consultation and sought more guidance from IFC. Effective public consultation led to better community development programs, fewer complaints about the project, and better sponsor-community relations more generally.

Disclosure affects SP impacts and effectiveness as it limits the transparency and inclusiveness of decision making. Transparency and inclusiveness are important means of creating accountability among sponsors and IFC for upholding their commitments and for supporting better SP outcomes. The case studies and the workshops revealed very different disclosure practices among projects. Many sources complained about the difficulty of accessing project information, that the available information lacked sufficient detail, and that business confidentiality concerns had been inappropriately extended to the social and environmental dimensions of projects. These sources strongly encouraged IFC to revise its information disclosure policy to provide better guidance about information disclosure practices and to facilitate greater transparency and more effective public consultation.

In the survey, staff thought that disclosure periods should be shortened. Staff also expressed the view that sponsors believed that the disclosure period led to unnecessary delays. In workshops and the global meeting, however, many participants thought that disclosure should focus on issues that were essential for stakeholders to understand the nature of the project by going beyond environmental and social assessment to include economic analyses.

**EFFECTS OF PROJECTS COMING LATE TO IFC.** There is widespread concern outside IFC about the utility of the SPs in situations where IFC, acting as the lender of last resort, comes late to a project; where an EA has already been prepared to comply with national regulations; and where ground may have been broken or the project is already well under way. In these cases, IFC is faced with a *fait accompli*. This was the situation in some case studies, and it severely limits the options available to IFC in its due diligence and the demands it can make of the sponsor.

DISCLOSURE AFFECTS SP

IMPACTS AND EFFECTIVENESS

AS IT LIMITS THE TRANSPAR-

ENCY AND INCLUSIVENESS OF

DECISION MAKING.

IN THE PAST, THE DEBATE HAS  
FOCUSED MORE ON WHETHER  
IFC SHOULD “DO” PROJECTS  
WHEN THEY COME LATE TO  
IFC. MORE PERTINENT IS A  
DEBATE ON WITH WHOM IFC  
DOES BUSINESS.

Within IFC, the review found that CES staff are concerned that investment staff keep projects under wraps until the advanced stages so that the range of options available to environmental and social staff are limited and that the project will not be interrupted for environmental and social reasons. Although none of the case study projects came late to IFC in terms of timing, some clearly had already decided on their project design and thus were not truly open to considering alternatives as required by OP 4.01. This approach also stymies the public consultation essential for the project’s development. A corollary problem is that when due diligence is not completed prior to project approval, delaying it until project implementation exposes IFC to the risks associated with decreased leverage commonly experienced after project approval.

Although the review accepts that the nature of IFC’s business means there will be projects where IFC will face irrevocable decisions and processes that affect SP effectiveness and impact and the ability of IFC to have a positive influence, this should be put in the context of the role and importance of the sponsor as a factor in determining positive impacts. In the past, the debate has focused more on whether IFC should “do” projects when they come late to IFC. More pertinent is a debate on with whom IFC does business.

**MONITORING AND SUPERVISION.** The number of specialists in CES makes it impossible to provide direct environmental and social supervision of all projects in the portfolio. The department makes an effort to supervise all Category A projects, but the vast majority of category B projects and FI sub-projects go unsupervised. Although not all projects have sufficient SP issues to require CES supervision, CES is forced to rely on self-monitoring by sponsors for the majority of projects, confirming a finding from previous OEG reports. CES was not able to state with precision the extent of its supervision, i.e. which projects had and had not been supervised for the period under review. The focus groups confirmed frustration about the lack of capacity to supervise adequately and stressed that greater communication between IOs and CES staff could lead to better supervision. The recent introduction of the ESRR addressed the need to prioritize supervision to address projects that may be in trouble or heading toward trouble. Still missing is the capacity to take measures to prevent problems from arising.

The lack of CES supervision capacity places more onus on the reporting requirements made of sponsors and the partnership relationship and trust between IFC and the sponsor. The quality and timeliness of sponsor reporting are critical in determining CES’s comfort level with a project, but this depends on how the sponsor understands what is required.

In at least one case study and in all regional workshops, sponsors revealed frustration at what they considered arbitrary timelines for monitoring reports not tied into national or self-reporting requirements, changing goalposts for monitoring reports, mixed levels of guidance on reporting, supervision visits that were cursory and with no prior agreement on what would be the focus of the visit, and lack of coordination and communication between investment departments and specialists. Finally, sponsors thought that their monitoring reports, after great preparation efforts in some cases, were disappearing into an abyss with little or no feedback or follow-up.

IFC staff and management had mixed views about the effectiveness of Annual Environmental and Social Monitoring Reports (AMRS) in monitoring sponsor compliance with the SPs. The majority of survey respondents said that AMRS are somewhat effective (57.8 percent). A smaller number of staff found them very effective (23.7 percent) or not very effective (14.8 percent). Relatively few respondents (3.7 percent) believed that AMRS are not at all effective.

This review found that there were two levels of concern and questions regarding the supervision system. The first and most profound was whether or not it is ever possible for IFC to supervise every project and whether that is even a useful approach. The second was that within the present system, however imperfect in its construction, there are many things that can be done, relatively easily, to improve efficiency and effectiveness. These include supervision protocols that detail what will be the focus of a supervision visit. Protocols would draw upon information gathered by investment staff, operation evaluation staff as well as external stakeholders where concerns may have been expressed.

In addition to protocols, further tying environment and social supervision to financial supervision, building a national reporting requirement, streamlining reporting with their lenders for large projects and using web based standard formats with clear advice and assistance on how to report are all relatively straightforward management steps that could be taken.

**IFC LEVERAGE.** In all sources, the review found mixed perspectives on whether IFC had leverage in insisting on SP implementation and compliance and, if it did, whether IFC would use it. This is even more so as IFC has increased its use of equity positions. For communities, external stakeholders, and some sponsors, IFC's position as a shareholder means that IFC should use its position to promote positive environmental and social impacts. This expectation goes beyond the business rationale for the option of equity within IFC, where IFC has taken equity where it sees a financial and economic upside on the project. For this reason, IFC has traditionally shied away from taking an active role as a shareholder, seeing that role as inappropriate as well as unrealistic. The role of IFC as a shareholder in promoting environment and social management within the project has been raised within IFC, notably in portfolio review meetings and by OEG. The review found that IFC does need to signal clearly to stakeholders what they can expect by its taking an equity position if IFC is not willing or able to use that position to promote more positive environmental and social outcomes.

The other constraint of leverage is that it decreases during disbursement. Despite full disbursement, the SPs still form the basis for environmental and social performance of the project. Liability does not end with disbursement. With many projects, the environmental and social issues are just beginning to manifest themselves at the time that disbursement may have been completed. The SPs, written for the Bank's public-sector lending, were not designed to cope with this dynamic; and many of the frustrations around IFC's role, internally and externally, may be attributed to the anomalies of leverage.

## V. FINDINGS ON INDIVIDUAL SPS

*This chapter examines the SPS individually and discusses review findings relating to each and overall gaps and deficiencies. This chapter does not provide an extensive discussion of each SP; it highlights the key issues for each SP as identified by the review.*

### Environmental Assessment

The present IFC approach to implementing the SPS, and to environmental and social impact more broadly, places great emphasis on EA as the principal diagnostic and planning tool for IFC and the project sponsor. Although this is not to be faulted as such, it does mean that a weak EA—whether because it is being completed ex post facto, is not broad enough in scope, or is carried out by a sponsor lacking sufficient capacity—can undermine the effectiveness and impact of the SPS and other efforts by IFC to achieve a high level of environmental and social performance.

The review found a wide range in the quality of EA processes and EIA and ERSS. The range stemmed from a lack of clarity in interpreting OP4.01 to include social issues beyond those specifically mentioned in the policy or covered by individual SPS, poor communication between IFC and the sponsor on what was required within the EA and EA documents, and a lack of sponsor commitment and capacity. In four case studies, EA documents contained serious omissions. In one of these, CES requested improvements in the EA documents four times because they were unsatisfactory. One project did not apply the EA policy even though the project involved a tropical plantation. Several case study EAs were good practice.

The review did find steady progress toward more comprehensive and improved quality EA over time. A move to look at cumulative impacts and strategic environmental impact assessment is developing in some cases. Although not described in this way, the EA was considered by the review to be the umbrella policy, setting the parameters for the implementation approach of other applicable SPS. Therefore, the strengths and weaknesses of OP4.01 and the way in which it is implemented have a cumulative impact on the effectiveness of the other policies. For example, some dam safety issues are actually covered by OP4.01 rather than the dam safety policy. OP4.01 has become the safety net for capturing any residual environmental and social issues not captured by the other nine SPS.

The policy is not clear on the extent to which it covers social impacts. Paragraph 3 of OP4.01 on EA states that “EA takes into account the natural environment (air, water, and land); human health and safety; and social aspects (involuntary resettlement, indigenous peoples, and cultural property).” This language has been interpreted by some to mean that only these three social issues should be examined in an EA, even though they represent an incomplete list of the social safeguards with IFC’s introduction of a policy statement on child and forced labor. The lack of an explicitly comprehensive approach to social issues, with no other policy requirement to take a holistic approach to social issues, meant that the degree to which the EA provides a sufficiently broad and inclusive approach depends on individuals in CES and the support they receive from the investment team and the sponsor. This review found examples in the case studies where social issues of clear concern were not addressed in the EA as they

were not explicitly required. Social issues related to labor retrenchment were not addressed in one case, gender issues were not addressed in another, and approaches to community engagement and participation often fell short of IFC's own best practice guidelines. Differentially applied policies provide a confusing situation for sponsors, who become concerned that they are being asked to go further than the policy requires by an investment team that applies the EA to social issues comprehensively. The sponsors believe that this will affect their competitiveness. Nevertheless, the review found that in at least seven case studies, sponsors, on their own initiative, took proactive and partnership approaches to local communities.

The lack of specificity as to the extent to which social impacts are taken into account in the EA process is only one of the areas of OP4.01 lacking clarity or specificity. The criteria for environmental screening and categorization are not clear, especially if projects that invoke other SPS should be automatically categorized as A projects. The extent of required public consultation and information disclosure is vague.

The role of advisory panels is only broadly outlined in paragraph 4 of the EA policy. The policy states that "the role of the advisory panel depends on the degree to which project preparation has progressed and on the extent and quality of any EA work completed, at the time the IFC begins to consider the project." The language of the policy is not specific as to the role of a panel and makes it sound conditional upon the stage of preparation.

In one case study and in comments from workshops, this review found that the role of panels and their independence, especially in monitoring, did not necessarily inspire confidence among communities and NGOs. For example, in one case the independent auditors had never spoken to anyone other than the project sponsor and operator. More guidance on what is expected of a panel and how it should carry out its work would improve panel transparency and effectiveness.

Best practice in public consultation and community participation has been advanced by IFC via the good practice manual, but the EA policy, which sets the tempo for project preparation, does not enshrine this best practice and gives little guidance itself to sponsors. The review found that many stakeholders were unfamiliar with IFC's best practice guidance.<sup>16</sup>

## Natural Habitats

The natural habitats and environmental assessment policies have become proxies for comprehensive ecosystem and biodiversity impact assessments. But in the absence of explicit guidance or more holistic approaches to ecosystem impacts, the natural habitats policy suffers the burden of lack of clarity and expectations beyond its scope.

In some of the seven case studies where the natural habitats policy was applied, the review found that there was significant disagreement between sponsors and IFC on what constitutes a natural habitat or significant conversion. This was confirmed in the focus groups and staff survey. This review found that, as with other policies, the implementation of the policy by environmental specialists was based largely on experience and case law. This was disconcerting to sponsors when they wanted clarification on why the policy was being invoked when, from their reading of the policy, they did not think it applied. The specialists within CES have developed an internal understanding of the policy and how it should be implemented, but the review found that this was not well communicated outside the department, thereby contributing to the lack of understanding by sponsors and to the perception in IFC that CES is something of a "black box."

THE NATURAL HABITATS AND ENVIRONMENTAL ASSESSMENT POLICIES HAVE BECOME PROXIES FOR COMPREHENSIVE ECOSYSTEM AND BIODIVERSITY IMPACT ASSESSMENTS.



Clearly the policy has led IFC not to finance certain projects, although participants from some tropical countries in workshops noted that the convergence of the natural habitats and forestry policies meant that IFC was virtually excluded from operating in their regions.

The review found a pre-1998 case study project where the policy had not been applied despite the clear need for it. It would appear in this instance that management's desire to expedite the approval process meant that the policy was not invoked although specialists were aware of the policy's applicability. It is not clear that this would be the case post-1998.

## Forestry

During the period covered by the review, the World Bank Group was undertaking a review of the forestry policy. Nevertheless, sponsors, staff and management, and civil society continued to be frustrated.

At the time of the review, the policy prevented IFC from financing commercial-scale projects in moist tropical primary forests. In case studies, workshops, the staff survey, and focus groups, there was widespread agreement that the forestry policy blocks IFC from financing and supporting sustainable, certified projects and from encouraging best practice.

Perhaps, because of its focus on logging activities, the policy does not give sufficient guidance about how to monitor or establish certification, chain of control, and third-party verification. There is little specificity on how biodiversity considerations should be incorporated in plantation and social forestry projects permitted by the policy.

The forestry and natural habitats policies have led IFC to believe that it is prevented from financing certain projects, and this review found examples of where IFC had not proceeded as a result of the forestry policy. IFC is even declining projects that would help sponsors make the transition from logging moist, tropical primary forests to sustainable plantation forestry. It would seem that the lack of specificity in the policy—for example, in relation to non-tropical forests—is also preventing IFC from undertaking projects that might have a positive impact.

In at least one case study, the forestry policy was unknown to the sponsor management and staff. This was a forest products project, which would suggest that the sponsor should have known about the forestry policy. This did not have a negative impact on results as the sponsors' own procedures were leading them to good practice, but it did reflect lack of communication and understanding between IFC and the project sponsor. In workshops, participants from the forestry and forest products sectors expressed confusion by the demands of the policy.

## Pest Management

The pest management policy was considered to be vague by sponsors in workshops and by NGOs. The policy states that “IFC supports a strategy that promotes the use of biological or environmental control methods and reduces reliance on synthetic chemical pesticides.” The policy is not supported by any other guidance on what strategy IFC is or is not following. The agribusiness case studies were moving toward integrated pest management regimes but for their own reasons.

## Dam Safety

For private-sector projects, a comprehensive EA should incorporate the issues covered by the dam safety policy. However, the policy itself is weakened by its universal treatment of dams. Although its requirement for an independent expert panel in water dams is appropriate, this review found that sponsors and staff were uneasy with the burden placed on some mine operators with tailings dams. Specific issues relating to tailings dams should be addressed in the dam safety policy. In the case of tailings dams, independent technical experts should be able to perform the role that panels serve for large water dams.

## International Waterways

When applied to private-sector projects, the international waterways policy appears to be unwieldy in some cases. The policy applies in the same way to large-scale and small-scale projects, to run-of-the-river dams and large storage dams, and to upstream and downstream riparian countries. The policy deals inadequately with the needs of closed water and open water riparian areas. The policy seems too general, and project sponsors in all the case studies where the policy was relevant were unclear as to its intent or application. For example, in two case studies that discharged water into international waterways, the policy was applied even though the discharge was cleaner than the waterway. In one case study, the project was applied correctly at one site but not applied at another.

The staff survey and the focus groups showed that specialists, in particular, believe that, for most IFC projects, many issues can be dealt with in the EA process and that the international waterways policy is unduly burdensome. Because only notification is required, the burden does not seem too great. This review learned from sponsor comments and case studies that the guidance for implementation of the policy and the policy itself could be focused more on the specific needs of each project.

## Involuntary Resettlement

Of all the policies, involuntary resettlement brings to the fore the operational constraints of translating Bank policies to the private-sector activities of IFC. The respective roles of the private sector and government authorities in each country where IFC operates differ slightly; but in most cases, the responsibilities of involuntary resettlement lie with the government authorities, the exception most often being concessions where the government has delegated responsibility to the sponsor. For example, the private sector acquires land “free and clear.” Other projects acquire land through other methods including private sales on a willing buyer, willing seller basis. Therefore, the policy needs to be given specificity in terms of guidance on application and implementation for private-sector sponsors. This guidance may need to be sector specific, for example, in infrastructure projects when dealing with concessions.

Some sponsors and government officials expressed fears that implementing the policy confuses the roles of the private and public sectors as stipulated under national regulations. In case studies, noncompliance was not necessarily the fault of the project sponsor but of government authorities who had failed to follow through on their commitments.

Project sponsors are alarmed when the policy suggests that they are responsible for involuntary resettlement that may result from a public-sector activity related to their project—for example, the building of a new spur road to connect a project to national infrastructure. In cases where concession agreements were negotiated between

CURRENT INTERPRETATION OF THE FORESTRY AND NATURAL HABITATS POLICIES HAVE LED IFC TO BELIEVE THAT IT IS PREVENTED FROM FINANCING CERTAIN PROJECTS.

the government and the sponsor before the arrival of IFC in the project, both the sponsor and government complained that the policy may require them to act outside their own law and regulations. Although in many cases sponsors have found themselves compensating for shortcomings in government involuntary resettlement, they do not wish to see the policy appear to codify this.

Sponsors in some case studies had not applied the involuntary resettlement policy because they were unaware that the policy applied to their situation. Independent auditors highlighted the oversight in two cases. Sponsors were unclear on the definition of “involuntary”. For many sponsors, “squatters” are a fact of life and they do not have specific rights. The sponsors are therefore unaware that the policy would apply in these situations.

The policy is also fraught with difficulties in cases where IFC comes to a project once resettlement has been carried out or when the project is well advanced. The baseline and necessary preparatory work for successful resettlement and a comprehensive Resettlement Action Plan (RAP) take time, which will necessarily slow a project unless built into preparation at the very beginning. Project sponsors are usually unaware of how much time it takes. Sponsors noted that the policy does not indicate the amount of effort required to comply and gives little guidance on how to proceed.<sup>17</sup>

Early identification of resettlement issues is critical, but this requires expertise. With the growth in social specialists within CES, IFC capacity has increased, but with environmental specialists alone often doing initial work on projects, social identification of issues seems to be lacking in some cases. The involuntary resettlement policy and other social policies would benefit from a framework that encompasses all project social impacts by integrating either a social assessment or social impact policy.

Despite the statement in the policy that “displaced persons should be . . . assisted in their efforts to improve their former living standards, income-earning capacity, and production levels, or at least to restore them,” this review found that many sponsors, staff, and other stakeholders were unclear about what the policy demands. Many people focus on the phrase “improved living standards” rather than IFC and sponsor commitment to “assist” this process. This interpretation causes differing expectations and leads to misunderstanding and frustration.

## Indigenous Peoples

There is tremendous lack of clarity and specificity in who should be treated as indigenous, what impacts should trigger the policy, and, other than the preparation of an Indigenous Peoples Development Plan, what should be done for indigenous peoples.

Lack of clarity leads to the policy’s not being invoked, with the preparation of specific elements in community development plans to address any groups that may be considered vulnerable. This helps the project to avoid the complications and controversies associated with the indigenous people’s policy.

Many sources in this review suggested that the indigenous peoples policy be replaced with a policy that would address affected peoples or vulnerable groups. This means that specific remedies would still need to be more explicit. The review concluded that most specialists were taking a pragmatic, participatory, community-development approach that seemed to be working well, although the approach was evolving away from policy.

## Cultural Property

Despite a clear definition of cultural property by the United Nations and clear understanding of what cultural property constitutes among the specialists with expertise in this area, the review found confusion among sponsors and FIs as to what is meant by the policy. This review did not see projects where the policy had not been applied, but from other cases indicating lack of clarity as to meaning and specificity in what was covered, the review established that sponsors were not implementing the policies and that FIs were unaware that they should be. This may mean that the cultural property policy is not being implemented in some cases.

## Child Labor

Since 1998, when all projects were required to be screened for child labor practices, only three projects invoked the child labor policy. In each of these projects, no other SP issue was identified. For this reason, no case study in this review examined the implementation of the child labor policy.

In workshops and the portfolio and desk reviews, it was clear that in some sectors there was resistance to the policy. In one project, an FI financing an agribusiness firm stipulated that child labor was not exploitative in helping to bring in the coffee harvest and that this was part of the social norm in that country.

Child labor is the only policy that relates specifically to agreed international norms and standards as it derives from the International Labor Organization's core labor standards. This provides the basis for greater clarity on what constitutes a harmful practice and how IFC defines this. In turn, this would allay the fears of some sponsors and other stakeholders.

# VI. GAPS AND DEFICIENCIES

THE REVIEW FOUND THAT, IN CASES WHERE SOCIAL SPECIALISTS WERE ENGAGED EARLY IN THE PROJECT, IT WAS MORE LIKELY TO TAKE BROAD APPROACHES TO SOCIAL ISSUES AND TO ASSESS POTENTIAL IMPACTS BEYOND THE SPECIFIC SAFEGUARD ISSUES.

## Social Policies

The policy on environmental assessment, as was noted earlier, operates as the motherboard for environmental and social issues in project preparation. This review found a strong correlation between comprehensive and timely environmental assessments and positive impacts of SPs and project outcomes.

The EA policy makes specific mention of three of the four issues dealt with in specific social policies: involuntary resettlement, cultural property, and indigenous peoples. Child labor was introduced as a policy at a later date and is not mentioned.

The incomplete address of social issues in the EA policy is leading to variance in the treatment and approach to social issues. The review found that, in cases where social specialists were engaged early in the project, it was more likely to take broad approaches to social issues and to assess potential impacts beyond the specific safeguard issues. Similarly, the project was more likely to correctly identify issues covered by the social SPs.

Given the relatively modest social specialist capacity, with about half a dozen specialists in CES, the need to address social issues more broadly at the level of the SPs was identified as the most critical gap by all sources in this review. In that context, the review found that there was sporadic treatment of gender issues within specific implementation of the SPs. The lack of a more general social treatment of projects meant that gender issues were not discovered.

Other social issues that emerged from the case studies and workshops as areas requiring special treatment within a broad social approach were issues of vulnerability, including ethnicity and race, social structure, and community health.

## Labor Standards

Although this review did not include case studies of projects where the child labor policy was applied, the desk review and workshops uncovered mixed sentiments about the rigid application of the policy. The framework for implementation is provided by the ILO agreements on core labor standards and work within countries and the international community on how they can be implemented. At present, IFC policy only addresses two of the four labor standards. It does not treat the right to collective bargaining and freedom to organize. IFC's experience with the child and forced labor policy is important learning for other international financial institutions, and IFC's commitment to the remaining labor standards should be examined.

## Policies Vis-a-Vis International Standards

With the exception of the child labor policy, no other policies make explicit mention of international agreements, norms, or standards to which countries and the World Bank Group ascribe. For example, the natural habitats policy does not refer to the Convention on Biological Diversity. The SP on natural habitats refers to IUCN guidelines, and the SP on pest management refers to FAO guidelines. In some cases, where sponsors are unclear as to the relation between IFC policies and national regulations, international standards may give helpful context and reference points.

This review identified several case study examples where IFC policies were adopted by local or national governments as models of best practice. IFC policies could achieve greater traction if they referenced international standards.

## Health Issues

This review found that health issues are of increasing concern to sponsors and communities. IFC policies give little guidance on how to consider health issues either through health impact assessment as part of environmental and social assessment or by giving guidance on conducting stand alone health and safety assessment where necessary. Sponsors in at least one case study, as well as in workshops, were unclear as to why guidelines on health and safety are not policies. This review found that ground-breaking work was being undertaken by sponsors, sometimes with IFC's support, on issues such as HIV/AIDS in the work force and the community. IFC's social and environmental approach neither covers this area nor provides systematic advice.

The speed with which health issues are changing is a concern and serves to emphasize the need for IFC to maintain a process for incrementally strengthening the policies, if not continuously revising them.

## Environmental Policies

This review found a number of areas where no policy or adequate guidance exists, and therefore the treatment of the EA by the environmental specialist became the only safeguard for the issues being treated. In some cases, IFC has committed to developing guidelines and/or guidance, and this has not materialized. These areas include treatment of cyanide and cyanide processes in mining operations and mine closure. Sponsors, governments, and NGOs in workshops and case studies expressed the need for more guidance on contaminated site cleanup.

IFC has done work on climate change in terms of developing models to measure the emissions of its projects as part of the institutional obligations of IFC under the UN Framework Convention on Climate Change. However, climate change is not addressed explicitly with sponsors as a matter of routine. Sponsors and others in workshops suggested the need for a climate change policy or explicit treatment of climate change issues in EA.

## Keeping up to Date

Case studies and desk reviews found that sponsors and staff were unclear as to what standards were to be applied. Guidance, handbooks, policies, and other standards referred to by IFC (for example, EU or EPA guidelines) may be or often are at variance with national regulations. This review found that where sponsors lack clarity on IFC's demands, they tend to comply with national regulations because they must do this and are familiar with such regulations.

SPONSORS THAT LACKED COMMITMENT TO ENVIRONMENTAL AND SOCIAL GOALS OF IFC SOMETIMES USED CONFUSION ABOUT THE SPS AS AN EXCUSE NOT TO PURSUE THOROUGH IMPLEMENTATION.

The levels for chemicals and compounds established in the *Pollution Prevention and Abatement Handbook* seem to be at odds with guidelines and guidance notes, need to be clarified in some cases, and are out of date in others. As knowledge in these fields progresses rapidly, mechanisms for updating guidance on implementation of these policies becomes more important.

Part of the confusion stems from a weak system for updating standards over time, tracking best practice, and then communicating that within CES and to the rest of IFC, sponsors, and external stakeholders. The majority of staff survey respondents believed that the natural habitat (72 percent) and international waterways (56.3 percent) policies were deficient or had gaps. For the other eight SPS, only 20 to 40 percent of the respondents believed those policies had deficiencies or gaps.

### **Policies, Guidelines, Guidance**

Sponsors expressed frustration at the panoply of policies, guidelines, and guidance and that this could not be accessed in one place at one time in one easily digested format. The SPS were written for Bank staff, not IFC, much less sponsors. IFC provides sponsors with the SPS, but not the procedures for implementing them. Some IFC guidance, for example, on large dams and pest management, is contained in the ESRP, which is for IFC internal use, not for sponsors. In the absence of guidance tailored for sponsors—such as good practice notes, manuals, and handbooks—the ESRP has been used to partially fill this gap. This review also found that the confusing array of possible standards and their disparate natures were contributing factors to specialists’ individual approaches to implementation wherein they tended to draw more on individual experience in previous projects than on group or department learning or practice. Sponsors in case studies and workshops indicated that a project could be treated differently, depending on the specialist assigned. Although part of that thinking is due to differences in approach by individual specialists, some might be due to the weakness of a system where specialists do not work as a team sharing best practices and are not managed to achieve maximum performance.

### **Toward More Result-Oriented Policies**

The origins of the policies as guidance to World Bank staff working on public-sector loans and projects is known. As these policies have been adapted to IFC and to private-sector sponsors, their lack of specificity in terms of who is responsible for what—with clear goals, targets, and timelines—hinders the extent to which they communicate their intent, are understood, and are having impact.

In case studies where sponsors had preexisting environmental management systems, sponsors found the SPS to be awkward and irrelevant. For sponsors with no such capacity but with commitment, as well as understanding of what was expected of them, how they should do it, and how many resources would be required, the SPS were unclear and cumbersome. Sponsors that lacked commitment to environmental and social goals of IFC sometimes used confusion about the SPS as an excuse not to pursue thorough implementation.

The staff survey showed that staff are concerned that other IFIs and financiers are more pragmatic and that IFC is losing business in an ever more competitive business environment. This review did not examine whether that is, in fact, the case; but the review did find that most sponsors recognize the value added of environmental and social policies but seek concrete and appropriately tailored SPS.

# VII. OTHER FACTORS AFFECTING IMPACT AND EFFECTIVENESS

## Factors Within IFC

### *Integrating safeguard policy values*

The need for SPs and the commitment to seeking out sustainability and value added in IFC's projects have been reinforced during the period under review. However, this review found that there are issues around integrating the values enshrined in the SPs that hold some keys not only to their effectiveness, but also to how IFC may build upon them in the future.

This review consistently found that the SPs are considered the exclusive responsibility of the specialists in CES. This attitude pervaded the cases studies, the staff survey, focus groups, and the feedback from sponsors in workshops. Not all investment staff consider the SPs to be part of the core business in the way they communicate with sponsors or approach a project. This affects the point at which environmental and social staff become involved, the timing of due diligence, how sponsors understand IFC and how it operates, and ultimately, the environmental and social outcomes of the project and the effectiveness of the policies.

Despite encouragement in department reorganizations toward project teamwork, the review found too many examples of investment staff pursuing projects with environmental and social specialist staff in the dark for too long as well as other examples of poor teamwork.

This review found the vast majority of environmental and social specialists to be extremely dedicated and talented professionals with unequaled experience in the work they carry out for IFC. Their specialization by industry allows them to develop more project-specific advice, which is appreciated by sponsors and investment departments. Some of the specialists, applying creativity and developing close professional relationships with their counterparts in sponsors, regularly take projects beyond the SPs, pushing innovation in achieving development impact. In case studies and regional workshops, sponsors and partner institutions praised the work of individual specialists. In the staff survey, the IFC factors that respondents most frequently mentioned as contributing to successful SP outcomes are the expertise and level of input of environmental and social specialists (76.7 percent), investment officer understanding and commitment to SPs (56.4 percent), management support and commitment (44.8 percent), and legal requirements, including adoption and enforcement of SPs (33.7 percent) (see figure 1).

But this review also found that this excellence is not capitalized on or supported by IFC. Specialist work is undermined by a weak management system that sometimes does and sometimes does not value their contribution. The internal management system within CES has undermined its impact in not clarifying, interpreting, and putting in place a system that would make the SPs more relevant to the work of the private sector. In some cases, the decision to manage around the policies was chosen for pragmatic

*Having earlier examined the SPs themselves and their effectiveness, this chapter now looks at factors affecting effectiveness and impact.” The first set of factors are exogenous to the SPs and procedures around their implementation within the environmental and social system of IFC, but internal to IFC. These factors relate to the business model and the way in which IFC’s overall management structure and priorities do or do not enhance or inhibit SP effectiveness. The second set of factors are exogenous to IFC.*



reasons. The review found that this worked where the specialist was intent on pushing the sponsor to do its best and was supported by his or her management. But, when this was not the case, the weakness of the system lead to missed opportunities to achieve better outcomes.

At the same time, some environmental and social specialists have become comfortable in their role as the SP mavens. This too has had an impact on communication with investment staff and sponsors. The issues of transparent decision making by specialists has already been raised.

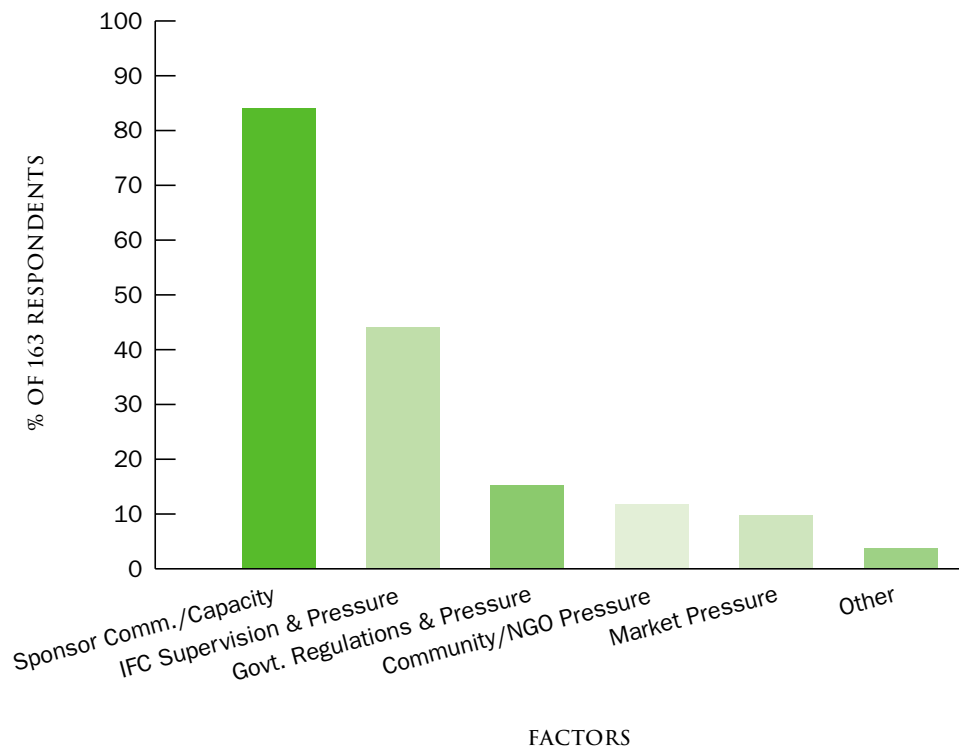
For the SPs and their values to be better integrated into investment decision making will require attitudes to change in both CES and investment departments. Senior management needs to set the lead.

### Factors Outside IFC

#### *Sponsors*

The commitment of the sponsor to environmental, social, health, and safety issues is the most important factor in achieving positive outcomes. Without that commitment, even where capacity building has to take place, the potential impact of the SPs is constrained. This was the experience of the case studies and was corroborated in workshops and the staff survey. Respondents most frequently (84 percent) believed that

FIGURE 3. MOST IMPORTANT FACTORS FOR SUCCESSFUL SP OUTCOMES

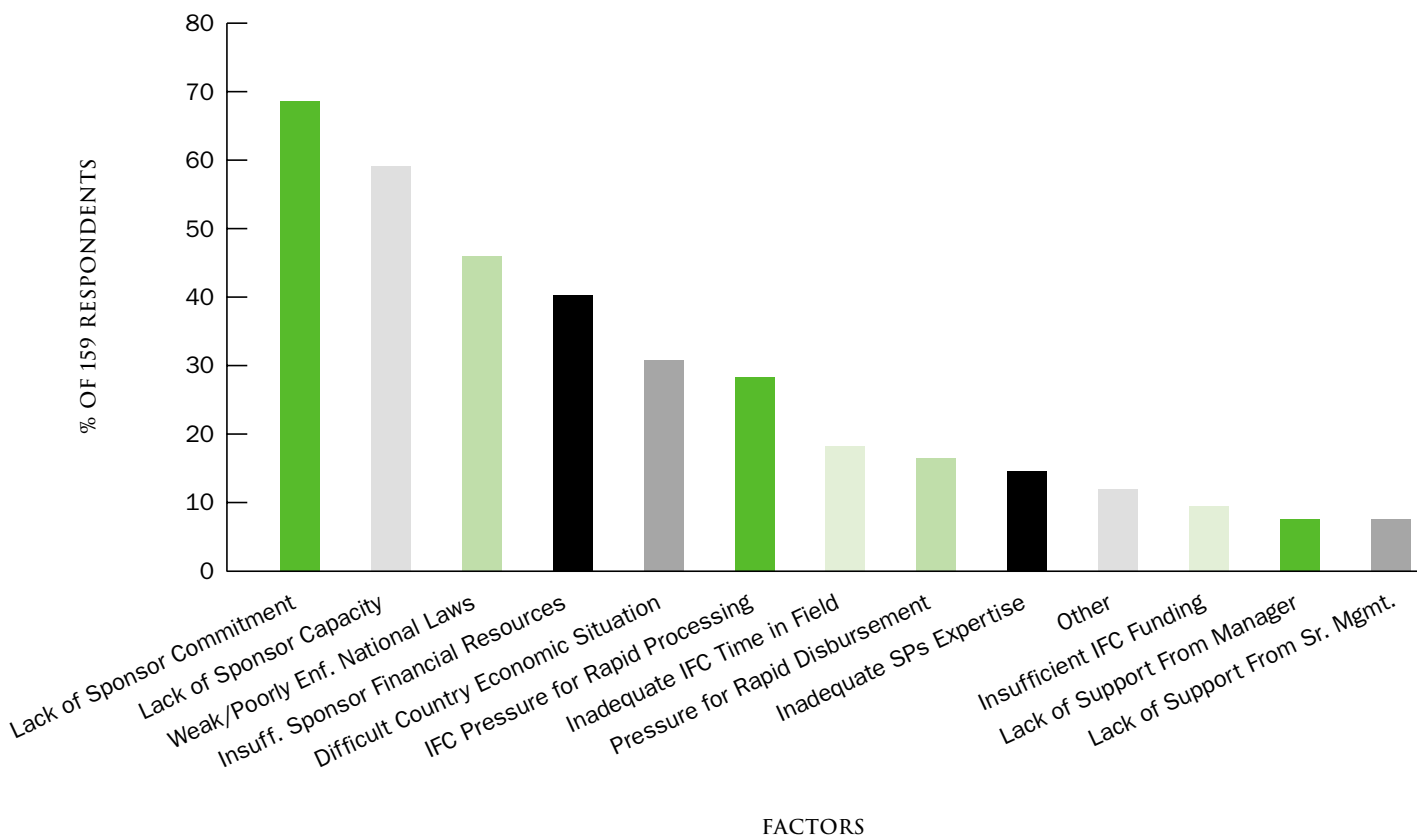


sponsor commitment and capacity were the most important factors in achieving positive outcomes. IFC pressure and supervision were distant seconds (45 percent), and no other factors were cited by more than 15 percent of the respondents (see figure 3). Among factors ensuring that the SPS achieve their objectives, by far the one most commonly cited was commitment by sponsor management and the board of directors (69.1 percent), followed by an experienced and effectively functioning environmental management unit (42.6 percent), IFC supervision and pressure to meet SP conditions (28.4 percent), and local government environmental and social regulations and enforcement (22.2 percent). All other factors were cited by fewer than 10 percent of the respondents.

Conversely, the factors that respondents most commonly cited as preventing SPS from achieving their intended purposes were lack of sponsor commitment (68.6 percent), lack of sponsor capacity (59.1 percent), and weak or poor enforcement of national environmental and social laws (45.9 percent). Insufficient sponsor financial resources, difficult economic situations, and internal pressure for rapid processing were also indicated as important factors (29 to 40 percent), while several other factors were cited by fewer than 20 percent of respondents (see figure 4).

Working with sponsors is also important in building their capacity. Within the case studies, this review found examples of committed sponsors working with creative specialists to develop best practice projects. At least eight case studies also showed projects with committed sponsors with capacity, who were perplexed and confused by the

FIGURE 4. FACTORS PREVENTING SPS FROM ACHIEVING THEIR INTENDED PURPOSE



array of demands sporadically communicated to them from IFC. In one case study, a manager knew what IFC required environmentally and socially, but no one else in the firm did.

### *Governments and regulation*

This review found in the case studies, as has been shown previously by OEG, that the strength of the government regulatory framework is important for positive impacts. The review found that SP effectiveness was supported by a strong regulatory environment because sponsors were used to meeting government demands. In these settings, if IFC's demands were confusing or appeared to be at odds with government regulation, the sponsor invariably applied the national standard. Staff survey respondents did not think that differences between SP requirements and host country environmental and social regulations were much of a problem. They thought the differences were a problem not at all (30.9 percent), rarely (27.9 percent), and occasionally (27.9 percent). Only 13.2 percent thought they were often a problem, and only 0.1 percent thought they were always a problem.

Government regulations also become important where the project is dependent on the actions of government in an enabling or ancillary project. IFC specialists in focus groups stressed that IFC projects often become vehicles for government reforms, broader problems to be fixed, or the introduction of missing regulations.

Government regulation is critical to the performance of FI subprojects. With the lack of supervision capacity and limited training and support provided by IFC to FIs, the strength and comprehensiveness of government regulation is important in ensuring that subprojects meet standards, although not necessarily those of IFC SPs.

### *Affected communities and civil society*

This review found that in several case studies affected communities were contributing to SP effectiveness and positive environmental and social outcomes. An ecotourism project was a model for effective sustainable resource management. The sponsor made the local community an equal partner in the project. Community members filled most of the jobs created by the project. In addition to profit sharing and salaries, the community also received tax revenues. The economic future of the community was tied to the success of the project, so the community took the lead in protecting wildlife and their habitat. The project was a win-win situation for all parties. Two case-study pulp and paper products projects developed model social forestry programs. In one project, the sponsor contracted with the community to supply timber for 50 years, thus reinforcing land stewardship and good relations between communities and the project. In the other project, the sponsor provided the farmers with tree seedlings and technical assistance. In turn, the communities helped prevent illegal logging and forest fires, thus contributing to good resource management.

Projects not based on affected communities participated in other ways. In an African project, the sponsor established a community trust to handle all the social development issues, including resettlement. The sponsor funded an innovative HIV/AIDS program. A Latin American project created a workers' association based on the solidarity movement system in Costa Rica. The association's purpose is to create harmony between the employer and employees. The workers association provides many benefits to workers, and has helped generate worker loyalty and low turnover. More recently, the sponsor

has developed a program to reach out to local communities, who would like more employment opportunities with the sponsor.

Affected communities, as well as their NGO allies and civil society more generally, played a relatively small role in project design, implementation, monitoring and evaluation. These stakeholders universally requested greater information, consultation, and participation in projects. Sponsors often viewed them as potential adversaries, rather than potential allies. An important exception was the water supply and sanitation case-study project where the sponsor had created an award-winning public relations program. Neighborhood community centers helped inform area residents about the project, distributed and collected bills, resolved disputes, and served as an interlocutor between the sponsor and its customers. The public relations program was complemented by a large public education program in the schools, which created greater awareness of the benefits of clean water and support for paying for such services.

### *Climate of procedural compliance*

A crisis of public trust surrounds the World Bank Group, including IFC. Much of the crisis is manifested in a focus on procedural or process compliance. This climate of procedural compliance is the environment in which the SPs are implemented.

Although IFC has put forward externally an increasingly proactive defense of flexible implementation of the SPs, those who wish to hold IFC accountable for its environmental and social performance have sought 100 percent compliance, whereas the real target is implementation results. For example, IFC and the sponsor could be in 100 percent compliance on the resettlement policy, but those actions may not succeed in increasing or restoring the incomes of displaced people. The SPs are not written for such a process measurement, and the nature of IFC's activities does not lend itself to such measures. However, the lack of transparency around the standards to which IFC does wish to be held accountable forces the debate back to compliance.

In workshops, meetings, and discussions, this review found a tacit recognition that the climate of compliance did not necessarily support better outcomes. Far too much attention has been given to specific phrases in SPs, rather than on results on the ground. The review found stakeholders who were determined that, in the absence of any other yardstick of accountability, process compliance on SPs was essential (for example, whether the document was disclosed for the correct period, etc.). For IFC to break this vicious circle of process compliance, greater clarity of IFC's objectives in undertaking a project and objectives to which it wishes to be held accountable, and greater discussion of the economic and financial dimensions of projects with disclosure where important, will allow for a more productive debate about outcomes. The crisis of public trust will have to be resolved before IFC and its critics are able to work together to focus on policies that are governed more by outcomes than by process. Only then can IFC and its critics jointly develop outcome-oriented policies that will serve the needs of all parties.

The recent sustainability initiative should address some of these concerns as IFC incorporates into its operational framework the need for transparency and accountability within sustainability.

## VIII. APPLYING THE POLICIES TO FINANCIAL INTERMEDIARIES

*In the period covered by this review, there has been substantial growth in the proportion of the portfolio invested through FIS relative to other types of projects. Furthermore, the importance of FIS as an instrument in IFC's delivery on its mission has increased. FIS have great potential for a "demonstration effect" and leverage as each FI, through its subprojects, engages with many other firms. Whereas an IFC direct loan to category A, B, or C projects typically affects a single project, a loan to an FI can affect dozens of subprojects.*

This review looked at almost 200 FI projects and included 10 FI case studies from four regions. The review did not reach FI subprojects systematically. One recommendation of this review is a thorough examination of the state of environment and social management and SP implementation in the FI portfolio. To the extent that the review did assess IFC's approach to SPs in FIS, it found that IFC does not know what is or is not happening with many FIS or their subprojects. This may pose a significant financial, business, and reputational risk to IFC and to the FIS in which it is investing.

IFC initiated a system specifically for supporting the environmental and social dimensions of projects funded through FIS, focusing pragmatically on capacity building for greater development impact. This has been widely adopted and adapted by other multilateral financial institutions. Given that most FIS have even less experience in social and environmental issues than other IFC clients, the needs of FIS are even greater. IFC's approach, as exemplified by the three-day Competitive Environmental Advantage (CEA) course, is to train the key personnel within FIS who are responsible for social and environmental issues. The approach focuses on environmental risk, developing FI environmental management systems, IFC's exclusion list, FI monitoring and reporting requirements, and on the use of environmental assessment as a screening tool. The CEA course introduces, but does not focus on, the other individual SPs. The aim of this approach is respected and welcomed by FIS. The CEA course increases their awareness of the risks that environmental and social issues may pose to their portfolios, and they see this as a necessary part of risk analysis.

The present application of the SPs, including interpretation and guidance, has not been customized for the realities of FIS. For example, the relationship among IFC, FI, and the project sponsor is different from that between IFC and the sponsor in direct lending. In some cases, the FI must interpret and make judgment calls on implementing an SP. Without clear guidance, FIS may find themselves with little support to make decisions involving multiple projects. The policies and the system for their implementation are not translated or interpreted for bankers (or the banker that has been trained to be the environmental specialist).

The present system and IFC staffing and funding to support FIS on environmental and social policies meant that the vast majority of FIS receive, as one FI described it in a regional workshop, "no after-sales service." This is made even more stark by the review's finding of near universal praise for the initial training (the CEA course) that FIS do receive. In this case, FIS just want more. Therefore, a system that states that FIS are trained so that their on-lending can be in compliance with the SPs is more wishful thinking than a statement of fact. The present system is neither catering to demand from FIS nor providing IFC with adequate assurance that SPs are being followed and implemented effectively.

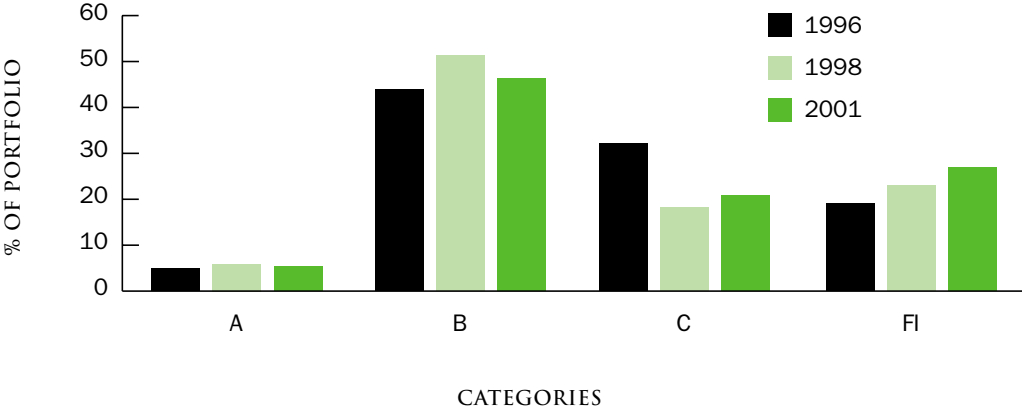
The training courses provided by IFC were welcome, but FIS reported that they wanted follow-up training, more support (both in person and via other sources) in terms of learning and best practice materials, and the creation of regional FI learning groups. FIS wanted support to be regionally based and closer to them and the markets in which they operate. FIS expressed to the review team that they feel very much alone once they have been initially trained. FIS need and want customized, on-demand advice and support. Because IFC has not been able to provide this level of support, FIS often have to rely on local environmental consulting firms and NGOs who may not have much experience with IFC's SPS. Furthermore, in some cases this review found missed SP issues and weak approaches in project preparation that would have been noticed by any IFC support mechanism to the FI.

This review encountered enormous frustration among FIS that there was not more support specifically tailored to their needs, that the support that did exist was not available in their regions, and that IFC did not capitalize on the family of FIS with which it worked in sharing and promoting best practices and using FIS as further catalysts for development. FIS need more than the three-day CEA course and one to two days of follow-up workshops. They need support when specific issues or questions arise. IFC needs to provide this support, or it and the SPS will lose credibility. In short, the system is not catering to demand from IFC or from the FIS themselves.

Many sponsors in the case studies and workshops commented that other international financial institutions had done a better job of packaging and explaining the SPS that apply and that IFC should take a leaf from their book. In fact, IFC staff and consultants have used materials from other international financial institutions in the absence of any IFC equivalent.

Many FIS seem unclear on their monitoring and reporting requirements. These requirements do not seem tailored to FI needs and capacities. FI-1 projects are not subject to the SPS, but rather must comply with local environmental and social regulations. Given that IFC does not have detailed knowledge of local regulations, it is up to the FIS themselves to ascertain those regulations. IFC cannot effectively monitor compliance. FIS have typically relied on government social and environmental regulatory agencies to monitor their clients. Therefore, they are poorly positioned to monitor the requirements of IFC's SPS, which are unfamiliar to them. This was another area in which FIS wanted greater IFC assistance. Nonetheless, several of the FIS visited by the review team were effectively monitoring their clients.

FIGURE 5. IFC'S PORTFOLIO BY ENVIRONMENT CATEGORY



# IX. CONCLUSIONS

*This chapter presents conclusions under four headings. The first set of conclusions are about the SPs themselves, individually and as a set. The second set are about the impact and effectiveness of the policies. The third set refers to FIs, and the fourth offers conclusions about the systems supporting the SPs.*

## **Safeguard Policies, Individually and as a Set**

As noted in Chapter 4, the SPs are having an overall positive effect and are contributing to positive environmental and social impacts. Often they are going beyond “do no harm” and providing a demonstration effect for other stakeholders. To understand why they have this effect, why they are not having a greater effect, what works and what does not, is the story of the interaction among the sponsor or FI, the investment team, the environmental and social specialists, the host government’s regulations and, in some cases, the engagement of communities and civil society.

The SPs were originally conceived and written for a different audience (public sector) and for different circumstances (World Bank loan instruments) than those under which they are today used by IFC. Without an effort to clarify their meaning in the private-sector context and to develop guidance on implementation and what should be expected, the SPs are sometimes proving cumbersome to IFC and sponsors. For other stakeholders, it is unclear what can be expected from the SPs. The way they are implemented in a project depends on the initial approach of the environmental or social specialist and the sponsor.

The SPs are presently packaged in a way that contributes to confusion around them: clarity on what they are; specificity of what they intend; what must be done, by whom, when, and how; what guidance exists; and how guidelines apply. Information is spread throughout numerous documents. That the policies are not available in one easy-to-use, cross-referenced, multilingual, and heavily annotated document with examples, is leading to the sense that the SPs are difficult and sometimes meaningless as applied.

Many people interviewed during this review, supported by many data points, expressed concern about the clarity of the SPs. Upon more detailed investigation, the review concludes that the larger problem is the lack of specificity within the policies on how to identify an issue and address it. Although some degree of creativity and flexibility is essential when applying policies to such a diverse portfolio, it is clear that this lack of specificity is considered by many as a hindrance to performance. Sponsors are unclear as to SP intent, specialists are unclear about how far to go, and other stakeholders are unclear as to why such a wide range of decisions is accommodated within one policy’s interpretation.

Although the SPs cover essential issues and partially embody principles subscribed to by IFC, their reach is incomplete. To the extent that this reflects changes in attitudes toward environmental and social issues, IFC needs to be able to update, amend, and evolve the policies to remain an industry standard leader.

If the SP system is to continue to rely on the EA as the instrument for management and for keeping the SPs and their issues in context, EA quality control needs to be tightened and specifically needs to address projects coming late to IFC.

## Effectiveness and Impact

SPs are most effective when the sponsor is committed, communication about what is expected is clear, teamwork between investment and environmental and social staff is good, and the national regulatory framework is strong and enforced. SPs are least effective when the sponsor is not committed to dealing with issues covered in the SPs, where the investment department obscures communication between environmental and social specialists and the sponsor, and where the SPs are introduced late to the project by the investment team.

The most critical variable in these equations is the sponsor. Without a committed sponsor, it is extremely difficult to achieve the desired environmental and social outcomes, and the struggle involves enormous costs on the part of the specialists. Sponsor commitment should not be confused with sponsor capacity. Capacity can be developed, and there are good examples of IFC working with sponsors, many of them small national firms, to improve their environmental and social management systems. Capacity can also be outsourced to some extent with qualified consultants or others providing many of the necessary skills. This review does not conclude that preexisting capacity is necessary for IFC to invest in a sponsor.

If the sponsor is key, IFC should take fully into account the sponsor's commitment and capacity on environmental and social issues in its business development activities. Assessing this commitment and capacity should be a fundamental aspect of investment departments' due diligence of a prospective sponsor. If IFC wishes to invest in projects where the commitment and capacity are suspect, it should be prepared to assume larger project preparation costs and lead times. These costs should be fully internalized in the project costs and investment departments and not externalized as a cost to CES.

This review supports OEG findings about the importance of national government regulatory systems and their enforcement. This leads the review to conclude that IFC should further strengthen its relationship with the Bank to systematically include the environmental and social regulatory framework in country analysis and assistance strategies and to fully partner with the Bank in critical countries for investment. This means building on Bank analytical capacity, knowledge, and experience in working with national regulatory frameworks relevant to the SPs. IFC needs a better system for ensuring that assumptions about national regulatory capacity are realistic and for assessing the risks if assumptions prove to be untrue.

The range of project scenarios oscillates all the way between best case and worst case scenarios. There is much to be done to achieve consistently high quality work by IFC and greater impact.

Within CES, the absence of standard guidance on interpretation, good practice, lessons learned, and innovations in application—mostly in the name of professional judgment—allows for enormous variance. This in turn undermines the usefulness of the SPs as a standard or as a baseline for “do no harm” and “do some good.” This diminishes the importance of the baseline among the investment departments, sponsors, and other stakeholders who are sometimes cynical in their belief that anything goes. It is the absence of systematic learning from experience or from others, and the degree of variance that this produces, that further undermines the SP system.

The lack of systematic learning in the past also undermines CES's effectiveness as a unit and in its interactions with the rest of the organization. During the period of the review, CES began to address this with introduction of new management tools. This issue was also part of the focus of successive reorganizations. However, IFC has a golden opportunity in the context of management statements on sustainability, and moves to harmonization of environment managements systems and Safeguard Policies across



HOWEVER, THIS REVIEW  
CAUTIONS IFC THAT TO MAIN-  
STREAM ENVIRONMENTAL AND  
SOCIAL VALUES, IT WILL NEED  
TO STATE EXPLICIT GOALS  
AND TARGETS, INCLUDING  
DEVELOPMENT OBJECTIVES OF  
EACH PROJECT, REPORT ON  
THEM, AND DEMONSTRATE  
ACCOUNTABILITY FOR  
ACHIEVING THEM OR NOT.

multilateral financial institutions and commercial banks, to introduce a next phase of innovation in order to achieve consistent excellence.

Within IFC investment departments, environmental and social performance of a project is part of the measurement of the performance of the project. In recent years, OEG's basket of measures for development effectiveness and now the Investment Officer Competency Framework have begun to take this into account. This review found that investment officers and departments do not always "own" every aspect of the project. This is best exemplified when things go wrong. In these cases, environmental and social specialists are placed on the front line to manage issues, including in some cases much of the external relations impact. IFC needs to continue to strengthen manager, director, and senior manager accountability for the environmental and social performance of projects. Simply stated, accountability and transparency should apply equally throughout the institution.

Effective supervision is the only way in which IFC may report on the effectiveness and impact of the SPs. However, the present supervision system leaves considerable parts of the portfolio unsupervised and with incomplete monitoring information. Innovation in supervision—using partners and building on existing systems—are options available to IFC, but not yet acted upon.

The SP effectiveness depends also on the extent to which their compliance is incorporated in legal agreements, either loan agreements or partnership agreements where equity is involved. Today IFC does not systematically include environment and social issues in equity investments. While this does pose legal and business challenges to not include them undermines any leverage IFC may have over performance and poses reputation and business risks to IFC as well as undermines outcomes.

### **Financial Intermediaries**

The FI portfolio provides a microcosm of the opportunities and constraints of the present SP system. The rapid growth of the FI portion of the portfolio has outstripped IFC's capacity to conceptualize an effective SP system for FIs. Unable to process FIs in the same way as direct lending projects, the system focuses instead on environmental and social management capacity. This has been delivered principally through training.

IFC training and the support given by the small number of staff working with FIs was universally praised, but there was also universal demand for more after-care service and more SP adaptation to FI realities. In short, FIs want a comprehensive, sensible, clear SP framework, training, capacity building, support services, networking, and support for further innovation. Without it, they feel exposed and unsure what is expected of them.

The excellent work carried out by IFC in this area is diminished by its inability to meet demand. Partnering and innovative uses of Internet-based media, networking, and other tools could be developed to reinforce the work already in place. However, this review concludes that a quantum leap in the amount and character of FI support is necessary to ensure and develop the environment and social management capacity of FIs.

## Transformation to Sustainability, Systems Level

Many of this report's conclusions resonate with the ideals expressed in IFC's recent announcement of its sustainability initiative. As expressed by the Executive Vice President, the commitment to sustainability and to the triple bottom line would seem to herald mainstreaming of the values enshrined in the SPs into IFC's core business. This is to be welcomed. However, this review cautions IFC that to mainstream environmental and social values, it will need to state explicit goals and targets, including development objectives of each project, report on them, and demonstrate accountability for achieving them or not. Without these, IFC runs the risk of any enterprise in the pursuit of mainstreaming: that the quality and quality control developed in specialization is weakened in the process of mainstreaming.

The present SPs and the system for managing them is constructed on the concept of compliance. This review has shown that the vagueness of the SPs coupled with the breadth of discretion in judging how they may be applied across a diverse portfolio of projects means that consensus is not possible on what "compliance" means for individual policies or projects. Furthermore, the origins and evolution of the SPs has meant that their focus is predominantly on process and with the possible exception of the involuntary resettlement policy, not sufficiently focused or clear on the actions the policy is designed to achieve.

Information, disclosure, and communication are critical for the effectiveness and impact of SPs. Sustainability includes the value of transparency. At present, many communities enter into a project through the disclosure and public comment on an EA because it is the only entry into the debate on the project with IFC or the sponsor. During the period covered by this review, the practice of information disclosure continued to evolve with regard to environment and social documentation, usually in the face of intense community and NGO pressures. This is to be welcomed but is ad hoc. The quality of public disclosure is directly related to the usefulness of public participation and community engagement. Therefore, as part of the strengthening of IFC's policies in this regard, enhanced disclosure is important. The evolution of practice in some cases leaves an even greater contrast between current practice on disclosure of environment and social information and disclosure on other aspects of the project. Although the review did not look at the information disclosure policy, because it is not an SP, the disclosure policy's importance for SP effectiveness is sufficient that it does need examination. Two issues to focus on are the extent to which business confidentiality poses a legitimate constraint on information disclosure, and to what extent IFC's disclosure policy conforms to international norms.

INFORMATION, DISCLOSURE,  
AND COMMUNICATION ARE  
CRITICAL FOR THE EFFECTIVE-  
NESS AND IMPACT OF SPs.

## X. RECOMMENDATIONS

*This chapter includes recommendations at the SP level and at the systems level. By systems, this review refers to both the system of implementing the SPs at the project level and the system within IFC that ensures that environmental and social goals are an integral part of the way in which IFC does business. The systems recommendations can be understood as a call to even further strengthen the context within which the SPs are expected to achieve their objectives.*

### Partner Selection

IFC should ensure that in its selection of partners, as project sponsors or FIs, the commitment to environment, social, and corporate governance is proven and that a specific assessment of their capacity is included at pre-appraisal. Existing appraisal processes focus mainly on project SPs and issues and need to complement this with greater attention to sponsor intentions and the likelihood of their successful delivery of commitments during project implementation. Some sort of systematic sponsor assessment process should be developed. This would include a sponsor's track record as well as other measures. These commitments and capacity should be an explicit part of investment decision making and should form part of the performance criteria of investment staff and managers. This is part of an integrated risk management system where riskier projects and riskier sponsors should bear the costs of increased risks, not IFC or other parties. Incentives should be enhanced for investment staff and managers that seek out and partner with companies demonstrating, or prepared to make a commitment to, good environmental and social outcomes as part of their business. **Choosing partners well is the key determinant for SP effectiveness and impacts.**

### Everybody's Business—A corporate approach

As has been commented on inside and outside IFC, the SPs contain provisions to “do no harm.” In some cases, they lay out some prerequisites for “doing good.” Through its sustainability initiative, IFC has now made a commitment to going “beyond do no harm” and achieving sustainability and value added. **In order to manage for optimal performance of the SPs and for positive environmental and social outcomes, the system for environmental and social preparation of projects should be significantly strengthened.** This strengthening should include two fundamental and interrelated components.

To manage for optimal performance of the SPs and for positive environmental and social outcomes, the system for environmental and social preparation of projects should be strengthened significantly. To achieve this, IFC must overcome the still apparent gulf between the “business side” and the “environment and social side” of the corporation. **For the SPs to have the optimal opportunity to meet their effectiveness objectives and to contribute to positive impacts, they need to be integrated well in early stages of project design and to be a tool in increasing the capacity of a committed sponsor.**

For there to be better integration, ownership of the environmental and social performance of individual projects and sectors of the portfolio, as well as of the institution as a whole, needs to be institution-wide. **Senior management and management should be held accountable for specific environmental and social goals derived from performance at the project and portfolio level.** As a first step, senior management needs to explicitly develop and affirm an SP framework and its centrality to IFC's mission.

Achieving positive outcomes through SP implementation should be the foundation of sustainability innovations. This accountability should then be extended to all levels of management and investment staff through department scorecards and performance objectives of directors.

Teamwork approaches should be further strengthened. Management should send a clear signal to sponsors and investment officers that late projects will not be rushed through the necessary environmental and social review. This should also mean that environmental and social staff should have unfettered access to sponsors from the earliest moments in project conceptualization and planning.

To preserve the importance and use of professional judgment, CES's management system should link performance to project outcomes, as has begun to be the case for IOs, and explain and disclose the rationale for decisions on categorization, SP applicability, approach taken, and other issues. This review is empathetic with the need to preserve creativity and allow for professional judgment. However, the review is concerned with the "bunker mentality" existing in, and recognized by many, within CES. Environmental and social specialists should be supported to use their judgment in applying the policies and in the value added beyond them that so often already exists, but this should be matched by more openness and transparency in that decision making. This will not only allow professional judgment to be seen as such, and not as a cavalier or "cowboy" approach, but more importantly will contribute to learning within the department, between CES and the investment departments, and in transferring knowledge to sponsors.

In turn, CES needs to address its own lack of transparent and accountable procedures for implementation of policies. **CES should put in place systems that ensure that specialist decisions are transparent and peer-reviewed consistently. Department practice in interpreting SP issues should be made more available within IFC and to sponsors and affected communities. Environmental and social specialists should have clearly established performance measures of the performance of their portfolio of projects.**

CES has become the isolated "home" of the SPs, thus acting against its own interest in seeing that the policies and the issues that the SPs address form a central part of investment decision making throughout IFC. Even within CES, individual specialists have become isolated from one another because the basis for decision making is not always clear.

## Stakeholder Engagement

IFC can strengthen the SP system by getting other stakeholders involved. This is particularly true with regard to public consultation and participation. IFC should be more proactive with sponsors to engage them in effective and timely public consultation by ensuring that stakeholders in all projects are engaged as early as possible and that sponsors are aware of what is expected of them. IFC should engage government regulatory authorities to strengthen their capacity and reduce sponsor confusion about differences between IFC and government requirements. IFC should work more closely with the Bank, which has the lead role within the Bank group, to develop government capacity.

In addition to allowing enough time early on and at critical junctures in projects for effective public consultation, key SP documentation should be translated into local languages using simple and easily understood terminology. The important work contained in the handbooks on public consultation and participation should be integrated throughout IFC's work. Training in these areas should be provided directly or by outsourcing to appropriate consultants.

## Revamping the Policies

This review found that the gap has grown between the SPS as they were originally intended and their use and application by IFC today. Yet the policies have not been systematically modified to keep pace with this changed reality. Although the SPS in their present form have only been in operation for four years (and IFC decided to postpone revision pending Bank revision decisions and then pending results of this review), **a number of SP overhauls are now overdue. Furthermore, in areas where technical, scientific and professional standards are steadily advancing, it is necessary for IFC to have in place a regular, if not continuous, monitoring and update system.** The policies themselves do not necessarily need to be continuously updated; sometimes it is the guidelines, guidance notes, handbooks, and other guidance material that needs more frequent updating.

SPS should carry with them clear guidance on what outcomes they are designed to achieve, with examples, and other supporting documentation to help the sponsor to place SP compliance within its overall environment and social management system.

Where necessary and as indicated in Chapter 4 of this review, individual SPS should be revised by IFC. More generally, the SPS should be rewritten to include support for implementation based on learning and best practices with specific guidance on interpretation, definitions, case studies, and examples. The policies should be clarified and made specific. The reworking should explicitly adapt the policies for the private sector, and guidance may take the form of specific industry-sector advice.

Reworked SPS and more targeted advice should be accompanied by electronic and Web-based technical support that can make the SPS easier for private-sector sponsors (existing and potential) and civil society to see more clearly what is expected, what is entailed, and where to go for help.

Much more attention should be paid to guiding sponsors on complying with the SPS. IFC could consider regional help desks, with free phone lines or web based questions and concern mechanism.

Duplication or deviance within and between different policy and guidance instruments should be clarified and resolved. A system for continually assessing and updating standards should be put in place. The internal and external Web should be used to ensure that IFC and external constituencies are clear about what standards apply.

Given the importance of the EA, IFC should make enhancing EA quality across all projects a priority. This should include ensuring that the consultants who carry out EA preparation work for IFC meet an agreed standard and that they have guidelines and a framework for completing their work. IFC should consider whether, alone or working with other IFIs, a certification system for consultants would lead to improvement in quality and dependability.

## Social Policy

If IFC wishes to continue to make the EA process the central planning tool that acts as the context for SP implementation, and we agree with using EA as the umbrella policy, IFC must ensure that a comprehensive approach to social issues, including social assessment, is part of the EA process. Although the need for separate environmental and social skills is recognized, this does not suggest separate processes. This review concludes and recommends that environmental and social issues should be integrated, not be separated into parallel processes. This should be carried out as a matter of urgency. IFC should also ensure that it has adequate staffing arrangements to ensure that it can maintain standards and support sponsors on complex social development issues.

## The Supervision System

This review is concerned that CES has set itself up to fail by working within a construct of supervision that implies that supervision of all projects is the desired state. This is not achievable without an enormous investment in supervision that this review does not believe will be productive. However, IFC should reconsider the basis of its supervision regime.

First and foremost, where feasible, the supervision regime should build on the existing capacity and systems that the sponsor already has in place. The supervision system should also build on the sponsor's reporting requirements to the national governmental regulatory regime. This way IFC's supervision system recognizes the centrality of the sponsor. By fitting the additional requirements of IFC to the existing framework of the sponsor, IFC will optimize the chances of the sponsor fulfilling its obligations and enhance the sponsor's environmental and social management system. This will require more detailed and agreed supervision arrangements up front between IFC and the sponsor or FI. Supervision should also be enhanced by giving communities a greater role in monitoring and supervision.

The supervision regime for Category A and B projects should include specific supervision protocols, a system for investment and specialist staff to track compliance with recommendations, and a strengthened risk-rating scheme. Environmental and social supervision should be better coordinated with financial supervision, and should take place at the same time wherever possible. Investment teams should have one perspective on a project. The new system should also address the present inability to provide adequate supervision of the B portfolio. Supervision of FI projects should be part of a vastly strengthened FI support service within IFC.

IFC should seek to increase and exercise its leverage. Environmental and social issues should be included in legal covenants. Similar to the World Bank and private banks, IFC should consider suspending loans or withdrawing from projects whose environmental and social performance present unacceptable risks to IFC.

## Financial Intermediaries

IFC should address anew the capacity it needs to support FIs to implement the demands that IFC makes of them in the environmental and social area. This will require substantial investment in training and support to FIs and in regionally based, FI-specific expertise. For efficiency reasons, it may be better to outsource the training and support. IFC should develop monitoring and supervision systems specifically designed for FIs and accountabilities within FI investment staff and management for the environmental and social performance of FIs. As a baseline, IFC should examine the FI portfolio in greater depth than this review to ensure that there are no subprojects that are causing material harm as a result of lack of familiarity with, or capacity to implement, the SPS. While a review of every FI subproject may not be feasible, a review of a sample of FI subprojects should be undertaken.



# END NOTES

- <sup>1</sup> See the IFC website on environmental and social review at [www.ifc.org/enviro/EnvSoc/Safeguard/safeguard.htm](http://www.ifc.org/enviro/EnvSoc/Safeguard/safeguard.htm) for the IFC Safeguard Policies and the procedures in place for their application.
- <sup>2</sup> For more information about IFC's Sustainability Initiative, visit the external Web site at <http://www.ifc.org/sustainability/>.
- <sup>3</sup> IFC, Ethos Institute, and Sustainability, Developing Value, 2002. The full report is available at ([http://ifcnet.ifc.org/correlations/main/sustainability/docs/Developing\\_Value\\_Final.pdf](http://ifcnet.ifc.org/correlations/main/sustainability/docs/Developing_Value_Final.pdf))
- <sup>4</sup> The WCD's final report, Dams and Development: A New Framework for Decision-Making, can be obtained from the WCD Web site at <http://www.dams.org/report>.
- <sup>5</sup> More information about the Extractive Industries Review can be obtained from its Web site at <http://www.eireview.org>.
- <sup>6</sup> All the key documents for the review can be found on the CAO Web site at [www.cao-ombudsman.org](http://www.cao-ombudsman.org). The Approach Paper can be found at <http://www.cao-ombudsman.org/ev.php>.
- <sup>7</sup> The summary reports on the regional stakeholder workshops can be found on the CAO Web site at [http://www.cao-ombudsman.org/ev.php?URL\\_ID=1002&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=628&reload=1037224124](http://www.cao-ombudsman.org/ev.php?URL_ID=1002&URL_DO=DO_TOPIC&URL_SECTION=628&reload=1037224124).
- <sup>8</sup> The summary report on the global meeting can be found on the CAO Web site at [http://www.cao-ombudsman.org/ev.php?URL\\_ID=1660&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=628&reload=1037224129](http://www.cao-ombudsman.org/ev.php?URL_ID=1660&URL_DO=DO_TOPIC&URL_SECTION=628&reload=1037224129).
- <sup>9</sup> The Web-based discussion questions and comments received can be found on the CAO Web site at [http://www.cao-ombudsman.org/ev.php?URL\\_ID=1525&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=628&reload=1037224526](http://www.cao-ombudsman.org/ev.php?URL_ID=1525&URL_DO=DO_TOPIC&URL_SECTION=628&reload=1037224526).
- <sup>10</sup> The summary report on the staff survey, including the survey questionnaire, can be found on the CAO Web site at [http://www.cao-ombudsman.org/ev.php?URL\\_ID=1673&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=628&reload=1037224743](http://www.cao-ombudsman.org/ev.php?URL_ID=1673&URL_DO=DO_TOPIC&URL_SECTION=628&reload=1037224743).
- <sup>11</sup> Members of the RAG included: Claudia Martinez, Colombia; Douglas Lister, IFC; Rashad Kaldany, IFC; Bernard Sheahan, IFC; Kay Treakle, Bank Information Center; and Mark Swilling, Spier Holdings. Biographical paragraphs on each member of the RAG can be found on the CAO Web site at [http://www.cao-ombudsman.org/ev.php?URL\\_ID=1383&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=628&reload=1037224772](http://www.cao-ombudsman.org/ev.php?URL_ID=1383&URL_DO=DO_TOPIC&URL_SECTION=628&reload=1037224772).
- <sup>12</sup> *The Pollution Prevention and Abatement Handbook* can be found on the IFC Web site at <http://wbIn0018.worldbank.org/essd/essd.nsf/Docs/PPAH>. Various environmental and social guidelines can be found on the IFC Web site at <http://www.ifc.org/enviro/enviro/pollution/guidelines.htm>.
- <sup>13</sup> The Environmental and Social Review Procedure (ESRP) can be found on the IFC Web site at <http://www.ifc.org/enviro/EnvSoc/esrp/esrp.htm>.
- <sup>14</sup> At the time of writing, there was no environmental or social specialist in the Hong Kong hub.
- <sup>15</sup> For the criteria for determining the environmental categorization of a project, see paragraph 8 of OP 4.01 on the IFC Web site at <http://www.ifc.org/enviro/EnvSoc/Safeguard/ea/ea.htm>.
- <sup>16</sup> The main source of guidance is *Doing Better Business Through Effective Public Consultation and Disclosure*, IFC, 1999, and can be found on the IFC Web site at <http://www.ifc.org/enviro/Publications/Practice/practice.htm>.
- <sup>17</sup> In May 2002, after completion of the research for this Review, CES issued its *Handbook for Preparing a Resettlement Action Plan*, which can be found at <http://www.ifc.org/enviro/Publications/ResettlementHandbook/resettlementhandbook.htm>.



# APPENDIX

## CAO Recommendations

## Selected related OEG Special Study Findings or Recommendations

IFC should ensure that in its selection of partners, as project sponsors or FIS, the commitment to environment, social, and corporate governance is proven and that a specific assessment of their capacity is included at pre-appraisal.

Provide programmed practical training to all staff using evaluation results and current best-practice examples, and covering . . . sponsor and management assessments, environmental compliance issues, and risk mitigation techniques. [Annual Review of IFC's Evaluation Findings: FY98]

IFC should . . . develop and update a best practice checklist and guidelines to continuously improve appraisal and monitoring of sponsors and company management. [Annual Review of IFC's Evaluation Findings: 1996]

For . . . financial intermediaries, IFC should ensure that . . . Management is experienced and has a good track record . . . . The intermediary introduces an effective environmental risk management system. IFC should . . . analyze whether the intermediary has appropriate appraisal skills for onlending. These skills should include . . . environmental risk management. If the intermediary does not have the appropriate skills, IFC should train the institution's staff to ensure that skills are transferred before disbursing to sub-projects. This is likely to require substantial staff resources—from IFC or in technical assistance. . . . [An Evaluation of IFC Support for Private Enterprises Through Financial Intermediaries in Sub-Saharan Africa; 1999]

IFC should extend credit lines to financial intermediaries only where it has a strong role and can deliver its needed contribution to capacity building. . . . [Annual Review of IFC's Evaluation Findings: FY2000]

[IFC should] Aim for better development impact . . . by: . . . in financial markets projects, paying closer attention to (i) at appraisal and in covenant structuring to client reporting requirements [Annual Review of IFC's Evaluation Findings: FY98]

In order to manage for optimal performance of the SPs and for positive environmental and social outcomes, the system for environmental and social preparation of projects should be significantly strengthened.

[For financial intermediaries,] IFC should develop reporting templates—and include them in investment agreements—which allow the monitoring of development outcomes including . . . subprojects' compliance with IFC's environmental and safeguard policies . . . . [Annual Review of IFC's Evaluation Findings: FY2000]

[IFC should] Pursue better environmental results by: mainstreaming the specification of project-specific environmental review and reporting standards in investment agreements; integrating environmental remediation and compliance into disbursement conditions and put arrangements; tightening the policy and procedures for waivers of disbursement conditions and other covenants relating to project environmental components and reporting. . . . [Annual Review of IFC's Evaluation Findings: FY98]

Management should increase the focus on environmental results on the ground: (1) Ensure that project compliance and reporting standards are specified in investment agreements to support monitoring and enforceability. (2) Incorporate environmental performance into completion tests. (3) Develop contractual arrangements to ensure environmental compliance where it cannot be achieved through loan covenants . . . . (4) Ensure that IFC's environmental specialists visit high-risk category B and FI projects early to ascertain compliance. (5) Help financial intermediaries meet their environmental responsibilities, and confirm compliance through IFC visits to selected high-risk sub-projects. (6) Develop guidelines and checklists for environmental performance of environmental intermediaries' sub-projects . . . . IFC should . . . use local consultants as “lender's representatives” to monitor project implementation, including environmental design, compliance, and reporting. [Annual Review of IFC's Evaluation Findings: 1996]

For the SPs to have the optimal opportunity to meet their effectiveness objectives and to contribute to positive impacts, they need to be integrated well in early stages of project design and to be a tool in increasing the capacity of a committed sponsor.

IFC should describe projects' expected development impacts coherently and consistently at appraisal and monitor emerging results, with operation scorecards, during supervision. [Annual Review of IFC's evaluation findings: FY2000]

[Financial intermediaries] In its front-end work, IFC should: . . . specify monitorable project-specific development objectives extending to the reach and quality of the sub-portfolio; thoroughly analyze the intermediary's appraisal capacity, and where it is found lacking, IFC should help the intermediary acquire it before it disburses to sub-projects. [Annual Review of IFC's evaluation findings: FY2000]

See also 10.3

## CAO Recommendations

## Selected related OEG Special Study Findings or Recommendations

Management and senior management should be held accountable for specific environmental and social goals derived from performance at the project and portfolio level. This accountability should then be extended to all levels of management and investment staff.

IFC should introduce an integrated performance management system that continuously tracks . . . development outcomes and their sustainability . . . [It] should include and systematically track enhanced measures of sustainable development. It should link reported results to incentives that reward excellent project and IFC contributions to EHS [environmental, health, safety, and social requirements] and living standards improvements. Management will need to identify specific skills and system supports needed by investment teams to promote sustainable development . . . [This] would support the EVP's commitment to leadership on results accountability and transparency . . . IFC should mainstream a corporate objective function that focuses on pursuit of both successful investment outcomes and development outcomes. [*Annual Review of IFC's Evaluation Findings: FY2000*]  
See also 10.18

The teamwork approach should be further strengthened. This should also mean that environmental and social staff should have unfettered access to sponsors from the earliest moments in project conceptualization and planning.

[Similar finding and recommendation for economists: IFC should ensure that, in line with its procedures, economists are consistently involved early in the project cycle and their perspective is appropriately reflected . . . *An Evaluation of Project Economic Analysis in IFC; 2000*]

ES should put in place systems that ensure that specialist decisions are transparent and peer-reviewed consistently. Department practice in interpreting SP issues should be made more available within IFC and to sponsors and affected communities. Environmental and social specialists should have clearly established performance measures of the performance of their portfolio of projects.

As a matter of top priority, IFC should embark on a wide dissemination of its forestry policy among the staff and relevant projects companies, including forestry, forest-impacting and financial intermediary companies. The technical and environmental staff should be encouraged to acquire full knowledge of the 1991 forest paper and any new directives emerging from the revised IFC's forest strategy. An interpretative staff manual on the forestry policy should be prepared to guide application of the policy/procedure, assure consistency of application across different projects, and provide guidance to all staff, particularly new ones. [*Implementation of the 1991 Forest Strategy in IFC's Projects*]  
See also 10.7

Reworked SPs and more targeted advice should be accompanied by electronic and Web-based technical support that can make the SPs easier for private-sector sponsors (existing and potential) and civil society to see more clearly what is expected, what is entailed, and where to go for help.

. . . Wide dissemination of the forestry policy should be given top priority among the staff and to IFC's project sponsors, particularly sponsors of existing projects in the IFC portfolio. The policy should be referenced specifically in the relevant investment agreements involving forest-based projects, forest-impacting projects and financial intermediaries. [*Implementation of the 1991 Forest Strategy in IFC's Projects*]

Duplication or deviance within and between different policy and guidance instruments should be clarified and resolved. A system for continually assessing and updating standards should be put in place. The internal and external Web should be used to ensure that IFC and external constituencies are clear on what standards apply.

[Similar finding: The wide variation in performance across Investment Departments suggests there is much to be gained from better tracking, greater transparency and more focused rewards for departmental level performance and enhanced skills . . . IFC should continue its commitment to corporate training in . . . development impact and sustainability [and] roll out its results-oriented departmental scorecards. *Annual Review of IFC's Evaluation Findings: FY2001*]

IFC should address a new the capacity it needs to support FIs to implement the demands that IFC makes of them in the environmental and social area. This will require substantial investment in training and support to FIs and in regionally based, FI-specific expertise. IFC should develop monitoring and supervision systems specifically designed for FIs and accountabilities within FI investment staff and management for the environmental and social performance of FIs. As a baseline, IFC should examine the FI portfolio in greater depth than this review to ensure that there are no subprojects that are causing material harm as a result of lack of familiarity with, or capacity to implement, the SPS.

[IFC should] Expand the environmental unit responsible for the financial sector via reassignment, and upgrade their oversight of financial intermediaries (FIs) by re-designing client reports. *[Annual Review of IFC's Evaluation Findings: FY99]*

[IFC should] Pursue better environmental results by: . . . reallocating environmental specialists to meet the greater demands of a growing proportion of financial markets projects, which are more supervision-intensive because of their requirements for IFC post-commitment contribution and subproject portfolio review; modifying the Annual Supervision Reports (ASR) to include a separate and prominent rating of environmental compliance to improve follow-up; routinely giving compliance deadlines and accelerating exit from companies whose environmental performance is critically substandard. *[Annual Review of IFC's Evaluation Findings: FY98]*

For financial intermediary projects in environmental Tier 2 (where there are identifiable subprojects), develop templates for reporting by the intermediaries. These should allow monitoring of development outcomes including the profitability of the portfolio and its compliance with IFC's environmental and social safeguard policies. *[Annual Review of IFC's Evaluation Findings: FY99]*

[IFC should] Aim for better development impact...by:...in financial markets projects, paying closer attention to (i) at appraisal and in covenant structuring to client reporting requirements, and (ii) during supervision by investment staff, to achievement of project objectives, subproject...environmental quality; [in all projects] modifying the Annual Supervision Report (ASR) document to track delivery of IFC's contribution as described in approval documentation. *[Annual Review of IFC's Evaluation Findings: FY98]*

During supervision IFC should track appropriate indicators to monitor whether its project-specific development objectives are being met, particularly whether its intermediary operations are financing sustainable and environmentally sound private enterprises. It should take action if they are not. *[An Evaluation of IFC Support for Private Enterprises Through Financial Intermediaries in Sub-Saharan Africa, 1999]*

IFC may be at reputation risk in its financial intermediary operations because it lacks knowledge about the FIs' subprojects, and it is not in a position to enforce its environmental covenants. IFC needs to create a database of subprojects funded by the financial intermediaries it assisted . . . Through selective sampling of high-risk subprojects and field visits, IFC should monitor compliance of the Type 2 financial intermediaries with their contractual obligations in respect of IFC's safeguard policies, as well as the compliance of their subprojects. *[Implementation of the 1991 Forest Strategy in IFC's Projects, 2000]*

IFC needs to ensure effective implementation of its new environmental and social review procedure, which addresses most of the related shortcomings encountered in this study. *[An Evaluation of IFC Support for Private Enterprises Through Financial Intermediaries in Sub-Saharan Africa, 1999]*  
See also 10.2, 10.3, 10.18, 10.19, 10.20

# GLOSSARY

CAO	Office of the Compliance Advisor/Ombudsman
CEA	Competitive Environmental Advantage
CES	IFC's Environment and Social Development Department
EA	Environment Assessment
EIA	Environmental Impact Assessment
ERS	Environmental Review Summary
ESRP	Environmental and Social Review Procedure
ESRR	Environmental and Social Risk Rating
FI	Financial Intermediary
IBRD	International Bank for Reconstruction and Development
IDA	International development Association
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
OEG	IFC's Operations Evaluation Group
PPAH	Pollution Prevention & Abatement Handbook
QPM	Quality Project Management
RAG	Review Advisory Group
SME	Small & Medium Scale Enterprise
SP	Safeguard Policy

© 2003 World Bank

Project Manager: Rachel Kyte  
Project Team Leader: Warren Van Wicklin III  
Project Team: John Ambrose,  
Roger Batstone, Nilufar Egamberdi,  
Michelle Malcolm

With thanks to all those inside IFC and  
among IFC's clients and stakeholders  
who gave of their valuable time in  
interviews, field visits, workshops, focus  
groups and surveys.

Editing: Caroline Taylor  
Design: Meadows Design Office, Inc.,  
[www.mdomedia.com](http://www.mdomedia.com)



**Compliance Advisor/Ombudsman**  
**2121 Pennsylvania Avenue, N.W.**  
**Washington, D.C. 20433**

**Telephone: 202-458-1973**  
**Facsimile: 202-522-7400**  
**E-mail: [cao-compliance@ifc.org](mailto:cao-compliance@ifc.org)**

**[www.cao-ombudsman.org](http://www.cao-ombudsman.org)**



**MULTILATERAL INVESTMENT  
GUARANTEE AGENCY**  
**WORLD BANK GROUP**