ADVISORY NOTE

Improving IFC's and MIGA's Local Development Impact at the Project Level

The Office of the Compliance Advisor/Ombudsman
for the International Finance Corporation (IFC)
Multilateral Investment Guarantee Agency (MIGA)
Members of the World Bank Group

CAO
COMPLIANCE ADVISOR/OMBUDSMAN

About the CAO

The CAO (Office of the Compliance Advisor/Ombudsman) is an independent post that reports directly to the President of the World Bank Group. The CAO reviews complaints from communities affected by development projects undertaken by the private sector lending and insurance members of the World Bank Group, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The CAO works to respond quickly and effectively to complaints through mediated settlements headed by the CAO Ombudsman, or through compliance audits that ensure adherence with relevant policies. The CAO also offers advice and guidance to IFC and MIGA, and to the World Bank Group President, about improving the social and environmental outcomes of IFC and MIGA projects.

The CAO's mission is to serve as a fair, trusted,
and effective independent recourse mechanism and to
improve the environmental and social accountability of IFC and MIGA.

For more information about the CAO, please visit www.cao-ombudsman.org

About the CAO Advisory Role and Advisory Notes

In its advisory capacity, the CAO provides advice to the President of the World Bank Group and to the management of IFC and MIGA relating to broader environmental and social policies, guidelines, procedures, resources, and systems. This advice is often based on the insights and experience gained from investigations and audits in the CAO's Ombudsman and Compliance roles. The objective in the advisory function, and in preparing this Advisory Note, is to identify and help address systemic issues and potential problems early.

ADVISORY NOTE

Improving IFC's and MIGA's Local Development Impact at the Project Level

The Office of the Compliance Advisor/Ombudsman

COMPLIANCE ADVISOR OMBUDSMAN

Contents

Some Definitions for This Note

Development impact refers to a company's or development project's direct and indirect effects on local communities and broader society.

This Note refers to a number of related effects of private sector development projects. Company operations normally have impacts—both positive and negative—on diverse stakeholders through different avenues. These include development opportunities, such as employment or contracting from local suppliers, as well as risks, such as increased pollution.

Development opportunities are **benefits**. They can usually be observed in **outcomes**, such as the number of jobs created. Outcomes are expected ultimately to lead to **impacts**, such as improvements in the well-being of workers' families (for example, through improvements in their health and educational status). These development opportunities are generated in the normal course of business. At times, companies aim proactively to provide development benefits as part of compensation or benefit programs.

This Note refers both to benefits that are generated as part of day-to-day business and to benefit programs. These cannot be neatly separated, as sometimes what starts out as a benefit program can turn into a normal business interaction. For instance, assistance to local suppliers in upgrading their standards can lead to improvements in the quality of products offered by local suppliers, which can make them competitive bidders for supply contracts.

Private sector operations can also yield **risks** for stakeholders of being negatively impacted, whether through environmental and social effects traditionally assessed in environmental and social impact assessments or through economic impacts, such as those on competing businesses and their employees.

Foreword

This Note originates from the CAO's experience in handling complaints from local communities about private sector development projects backed by IFC and MIGA. In consulting with local communities and other stakeholders, and in working to defuse highly charged situations, the CAO has found that underlying many of these complaints are local communities' perceptions about the distribution of a project's risks and benefits. Conflict has arisen where local people have felt at risk from the project, without feeling that they would share in the benefits that the project would generate. In particular, conflicts have tended to arise where:

- There is little or no information available about the development effects of a project.
- Development impacts do not benefit those who bear the greatest risk.
- A project's benefits or compensation programs are narrowly defined, excluding groups of local stakeholders that feel at risk from the project, even if they might not be immediately affected.

There are several ways to help address these causes of conflict. When we began work on this Note, we initially focused on the insight that improving the transparency and reporting of local impacts can significantly improve company-community relationships. It quickly became obvious that transparency and reporting are necessary, but not sufficient. Equal attention must be given to designing projects to avoid and minimize risks; improving the monitoring and reporting of risks and benefits; and, at times, finding ways of proactively generating benefits that target those communities that are to bear the greatest risks from the project. The findings and recommendations in this Note are offered to these ends.

- We propose processes and sample indicators to help implement IFC and MIGA commitments in all projects that involve significant social and environmental risks and impacts.
- We highlight different avenues of impact for companies to assess (and ways for them to better articulate) their operations' broader development impacts, to help clients generate greater levels of society support.
- We make specific recommendations to help IFC and MIGA strengthen their focus on local development impacts in their day-to-day business. This involves strengthening the practical implementation of the institutions' existing Sustainability and Disclosure Policies, and developing more appropriate incentive systems in the two institutions.

We find that many of these ideas are already reflected in the current policy and practice of IFC and MIGA, but they need to be strengthened and applied more consistently. The recommendations at the end of this Note suggest ways to proceed by using points of leverage available to these two financial institutions more effectively and building on existing good practice.

Finally, it should be noted that projects that lead to CAO complaints tend to be characterized by high potential local risks, and all have unique contexts and circumstances. They do not constitute a representative sample of IFC's and MIGA's projects. Moreover, the findings about particular projects in this Note are offered with the benefit of hindsight. The projects were complex; hence, their impact and implications were quite difficult to assess and foresee completely. But complex projects with considerable development impact on local communities are precisely the types of projects that offer valuable insights about how to diffuse conflict before it escalates. The projects examined in this Note, and the CAO's experience with other controversial projects, are helpful in providing insights into what types of circumstances can lead to conflict and which approaches may serve to prevent such conflict. Our recommendations are offered with the aim of better resolving conflicts in the future, and securing better development impacts for companies, local communities, and other stakeholders.

Meg Taylor
Vice President, Compliance Advisor/Ombudsman, CAO
June 2008

Executive Summary

We believe that implementation of the recommendations in this Note will help resolve conflicts before they escalate, and strengthen project performance and local development impacts.

The Office of the Compliance Advisor/Ombudsman (CAO) responds to complaints from communities affected by projects supported by the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). In handling such complaints, and in mediating among different project stakeholders, we have found that underlying many of these complaints are local communities' perceptions about the distribution of a project's risks and benefits.[1] We have found, moreover, that the possibility of preventing conflicts can be improved by identifying and addressing stakeholders concerns early in the project's development and reporting more thoroughly on project impacts, benefits, and risks throughout the life of the project.

In line with our advisory role, this Advisory Note draws on our experience to put forward recommendations to IFC and MIGA. In particular, as a way to ensure that those communities that bear the greatest social and environmental risks also benefit from high-risk projects, we recommend that IFC and MIGA emphasize the identification, assessment, monitoring, and reporting of local development impacts throughout the life of the investment. Improved transparency and reporting of local impacts can achieve significant improvements in company-community relationships, and we believe they will lead to improved outcomes. In addition, we propose that companies operating complex and risky projects need to go further and generate benefits proactively for those most at risk of being impacted adversely by company operations. We believe that implementation of these recommendations will help generate local support for company activities, resolve conflicts before they escalate, and strengthen project performance and local development impacts.

The recommendations presented in this Advisory Note do not represent a radical departure from current practice; rather, they aim to support IFC and MIGA in implementing and strengthening their existing policy commitments.

The CAO's Experience: Learning from Specific Examples (Chapter 1)

We present three cases to illustrate our experience: the Allain Duhangan Hydropower project (India); the Orion and Celulosas de M'Bopicua (CMB) projects (Uruguay); and Pulp Mill project (Uruguay); and the Rustavi complaint about the Baku Tbilisi Ceyhan (BTC) pipeline (Georgia). These examples are chosen from complaints that we received in the infrastructure, manufacturing, and extractive sectors: sensitive sectors that lead to the majority of complaints to the CAO. These project examples offer valuable insights into how local concerns can be answered differently and how the underlying causes of conflict can be addressed. With the benefit of hindsight, we see that there were opportunities to have engaged better with communities around anticipated local risks and development impacts. More effective steps could have been taken to address the concerns of those who felt most at risk from adverse impacts and to ensure that they could also benefit from the project. Company development programs could have been designed to address local fears directly, turning discussion around local concerns into an opportunity to find solutions jointly.

The examples in this Note suggest that company development programs could have been designed to address local fears directly, turning discussion around local concerns into an opportunity to find solutions jointly.

The Context of the Need to Reform (Chapter 2)

IFC and MIGA operate in a landscape of changing societal expectations about the role and actions of the private sector. A company's access to land, government licenses, financing, and markets is increasingly governed by its support from society: its "social license" to operate (see discussion, chapter 2). Responsible companies now seek to secure stakeholder support for their activities through several means, including proactive engagement with stakeholders at the project level and increasingly sophisticated reporting on nonfinancial aspects of performance that demonstrate a company's contribution to society. Several international initiatives and codes of practice also play a role in clarifying expectations around corporate responsibility, but do not yet address the issue of reporting on local development impacts.

Assessment of Current Practice at IFC and MIGA (Chapter 3)

We recognize that as financiers (IFC) and insurers (MIGA), the institutions do not operate projects directly and that their leverage is limited, as they finance and insure projects with other financiers. Their results are determined by their effectiveness in selecting partners and projects, and influencing project design and execution. Greatest leverage exists at the earlier stages of engagement with the sponsor, before Board approval and financial disbursements. In pursuing their mission, IFC and MIGA managements and staff are guided by institutional strategy, policies, and operational procedures, as well as by the institutions' incentive systems. The institutions' Sustainability and Disclosure Policies already contain provisions regarding community engagement and reporting on development impact. IFC's and MIGA's investment due diligence processes as they now stand, however, as well as their own internal corporate incentives, present opportunities for improvement. They do not, for example, adequately consider the possible local development impacts and benefits in projects that involve significant risks of adverse impacts. These due diligence processes also do not effectively utilize the limited points of leverage available to IFC and MIGA to encourage better development outcomes.

Recommendations (Chapter 4)

We offer concrete recommendations and practical guidance to help IFC and MIGA strengthen their focus on local development impacts, with the aim of improving project performance and enhancing the institutions' development results while reducing conflict around projects and complaints from local communities affected by investments.

We believe it is always in the interest of companies to articulate and report their impacts on, and contribution to, society. Where company operations yield limited adverse impacts, reporting of a few core impacts and indicators will help generate stakeholder support. Where companies operate complex projects with significant potential adverse impacts—those projects with the highest potential for conflict—monitoring and reporting activities will need to be more sophisticated and allow greater participation of affected communities. Such processes are naturally also more costly and time-consuming. The effort and cost of monitoring and reporting efforts should therefore be in direct relationship to the projects' inherent risks and potential for conflict.

Our recommendations are organized around three objectives:

- *Building strong local relationships through better client-community engagement on development impacts*. We propose processes and sample indicators to help implement IFC and MIGA commitments in all projects that involve significant environmental and social risks and impacts. These processes and indicators will encourage their clients to engage more effectively with local communities on matters concerning local development impacts.
- *Securing a client's social license to operate through broader development impact reporting*. We recognize that projects can impact a broader group of stakeholders beyond the local level. To help clients generate greater levels of society support, we highlight different avenues of impact for companies to assess, as well as ways to better articulate, their operations' broader development impacts.
- *Strengthening processes and incentives at IFC and MIGA to focus on achieving positive local development impact*. We make specific recommendations to help IFC and MIGA strengthen their focus on local development impacts in their day-to-day business and more effectively utilize points of leverage during engagement with the sponsor. This involves strengthening the institutions' existing sustainability and disclosure practices and developing more appropriate incentive systems in the two institutions.

Chapter 4 presents our recommendations in greater detail and looks at the organizational implications for IFC and MIGA.

Chapter 1. The CAO's Experience: Learning from Specific Examples

The examples in this chapter illustrate ways in which conflict might have been avoided had underlying tensions and perceptions around benefits been better addressed from the outset.

The CAO, in its advisory role, is charged with drawing from its own experience to offer insights and recommendations to the President of the World Bank Group and senior management of IFC and MIGA.

The three case examples that follow were chosen to illustrate how community perceptions about project benefits can play a role in increasing conflict. We find that conflict arose where local people felt at risk from the project without sharing in the benefits that the project generated.

This has been a factor in many complaints that the CAO has handled, in particular, where:

- Little or no information is available about the development effects of a project.
- Development impacts do not benefit those who bear the greatest risk.
- The project's benefit and compensation programs are narrowly defined, excluding groups of local stakeholders that feel at risk from the project, even if they may not be immediately affected.

There are several ways to help address these causes of conflict: designing projects to avoid and minimize risks; improving the monitoring and reporting of risks and benefits; and, at times, finding ways of generating benefits that target those communities that are to bear the greatest risks from the project.

The discussion of these examples does not seek to fully explain the complexity of the projects, complaints, and stakeholder interests involved. Rather, it tries to highlight aspects that can help shed light on why conflict might have occurred and ways in which it might have been avoided had underlying tensions and perceptions around benefits been better addressed from the outset.

Example 1. Allain Duhangan Hydropower Project, India

The fact that those at risk did not stand to benefit from the project should have raised concerns about the potential for conflict.

The project: The Allain Duhangan project is a 192-megawatt run-of-river hydroelectric power plant, with an associated transmission line, on the Allain and Duhangan tributaries of the Beas River in the state of Himachal Pradesh in India.[2] The plant is being constructed on the Allain River but will be powered by the combined flows of the Allain and the diverted Duhangan River. The construction phase is now progressing toward completion.

The complaint: People living downstream from the project were concerned about their water supply drying up as a result of the project's diversion of the Duhangan River. Further, they felt that the Social and Environmental Impact Assessment (SEIA) carried out by the company did not adequately address their concerns or provide a sufficient basis for informed consultation on the key impacts of the project.

The conflict: At the heart of the conflict lay the increased vulnerability that many community members felt because of the project's potential impact on their way of life and livelihood. The community did not trust company assurances that water shortages would be addressed, should they occur. The solution to the conflict was found by addressing the complainants' core concerns, and by building trust. This was done when the company helped secure the community's fresh water supply, upgraded irrigation facilities, and strengthened its monitoring systems.

The context: During our discussions with various local project stakeholders, several underlying questions about the distribution of benefits and risks surfaced repeatedly. For example, people asked questions about who would gain jobs and contracts at the new plant and what would happen with a community development fund that the company had established. Although the company generated significant local benefits through sourcing from local suppliers and local employment both at the plant and through subcontractors to the company, those who felt most threatened by the project—farmers—were not the same group that stood to gain from it: mainly younger people and entrepreneurs.

Insights: Having reviewed this case after the fact, and thus speaking with the benefit of hindsight, the CAO believes that the company would likely have found it easier to build trust with the community and resolve (or even avoid) the conflict that arose had it:

- Communicated proactively with communities on the subject of the anticipated local benefits. This would have helped build good will and trust with the community and enabled the company to better gauge the community expectations about the project's impacts on them.
- Responded better to local fears about water supply from the outset. This issue was crucial to the livelihoods of the farming community. Communities did not fully trust the engineers' assurances that no problems were to be expected. The company might have creatively assessed ways in which this issue could have been developed as an opportunity for collaboration and engagement rather than as a threat.[3]
- Included an analysis around the anticipated distribution of benefits and risks across the various different categories of local stakeholders in the Social and Environmental Impact Assessment (SEIA). The fact that those at risk did not stand to benefit from the project should have raised concerns about the potential for conflict.

Engagement on local development impact: The processes and indicators described below might have helped address community concerns more effectively and so have built greater trust and support for the project.

- *Processes* include (1) assessing local development impacts more fully as part of the SEIA process, and then discussing these impacts with local communities; (2) identifying ways that those at risk might also obtain some benefit from the project; (3) choosing indicators in consultation with the affected communities to monitor and report local impacts of concern to the community; and (4) identifying ways in which community representatives could participate actively in the management of the local community fund, ensuring a say for those who do not gain from other project benefits.

- *Indicators* that the company and community could have agreed upon at the earlier stages of the social and environment impact assessment process are presented in table 1.1.

Table 1.1. Allain Duhangan Project: Proposed Indicators to Suggest Likely Benefits and Impacts

Type of impact	Examples of indicators and helpful information
Benefits through local procurement	• Money spent on locally sourced goods and services • Number of local suppliers (such as those located/operating within local community) • Information on the procurement process
Benefits through local employment	• Number of local workers at the plant • Ratio of local to nonlocal workers at the plant • Estimate of indirect employment through subcontractors (focusing on the most important subcontractors) • Information on the hiring process
Benefits through the community development fund	• Money spent on community development fund • Information on plans/process for fund activities and spending
Direct impacts of concern	• Indicators of local water quality and quantity
Impacts on local well-being/development	• Specific local human development indicators (such as those relating to school attendance, quality of health, local incomes, ownership of local assets)

Example 2. Orion and Celulosas de M'Bopicua (CMB) Projects, Uruguay

As long as some local communities expected mainly to experience risks and not to receive any benefits from the project, it would always prove difficult for the company to secure their support.

The project: The Orion and Celulosas de M'Bopicua (CMB) Projects, Uruguay are greenfield eucalyptus kraft pulp mills sited in western Uruguay near the Uruguay River, more than 300 kilometers from the capital Montevideo and on the border with Argentina.[4]

The complaint: Residents living near two proposed pulp mill projects (on both sides of the border but predominantly in Argentina) filed a complaint stating concerns related to the mills' anticipated environmental discharges, which they expected would pose unacceptable environmental and social risks to the surrounding areas in Uruguay and Argentina. The complaint included the criticism that there had not been sufficient information sharing and consultation.

The conflict: Many local residents across the border in Argentina feared that environmental discharges would harm their tourism industry, local fisheries, and potentially even their agricultural production. A smaller number of complainants on the Uruguayan side feared that negative impacts would arise from extensive land purchases by the company. The ensuing controversy was highly political and escalated to the level of the heads of state for both countries, compelling the operators of the proposed CMB mill to relocate the project entirely. Conflict over the Orion mill is ongoing and a decision on the conflict by the International Court of Justice in The Hague is now pending.

The context: There are differing views regarding Uruguay's legal obligations in this matter and on the magnitude of the project's environmental and social risks and impacts. One thing seems clear, however: the economic operations and the main benefits of the mills were largely concentrated in Uruguay. As in the other project examples, the distribution of benefits was not the root or single cause of the conflict, but it influenced the nature and intensity of the conflict and provided an opportunity for removing an underlying cause of conflict. As long as some local communities expected mainly to experience risks—regardless of any disagreements around the magnitude of these risks—and not to receive any benefits from the project, it would always prove difficult for the company to secure support for the project.

Insights: With the benefit of hindsight, the company might have found it easier to build trust with the community and resolve (or even avoid) the conflict by:

- Communicating proactively with local stakeholders on both sides of the border about the expected benefits from the project as well as the risks so that concerns were better appreciated and understood from the outset
- Differentiating groups within communities based on how their livelihoods were likely to be impacted by the projects and customizing the approach to each group
- Finding ways to better benefit local stakeholders—particularly those most threatened by the developments—on both sides of the border in a way that addressed their specific needs.

Engagement on local development impact: The processes and indicators described below might have helped address community concerns and build trust and support for the project.

- *Processes* include (1) assessing local development impacts more fully as a part of the SEIA process and then discussing these impacts actively with local communities; (2) social mapping within communities to get a better understanding—at a deeper level of detail—of groups that saw themselves as "winners" and "losers"; (3) identifying opportunities that might have benefited stakeholders on both sides of the border, designing these opportunities based on needs identified during the SEIA process; and (4) choosing indicators in consultation with the affected communities on both sides of the border to monitor and report local impacts of concern to the community, such as tourism.

- *Indicators* that the company and affected communities could have used are presented in table 1.2.

Table 1.2. Uruguay Pulp Mill Projects: Proposed Indicators to Suggest Likely Benefits and Impacts

Type of impact	Examples of indicators and helpful information (presenting data for both sides of the border)
Benefits through local procurement	• Money spent on locally sourced wood and other inputs • Number of local suppliers • Information on procurement process • Number of local workers at the mill
Benefits through local employment	• Increase in wages paid • Estimate of indirect employment • Information on the hiring process
Direct impacts of concern	• Environmental discharges • Water and air quality in region • Changes in tourism revenues or investment
Impacts on local well-being/development	• Specific local human development indicators (such as those relating to school attendance, quality of health, local incomes, ownership of local assets)

Example 3. Baku Tbilisi Ceyhan (BTC) Pipeline–Rustavi, Georgia

If the opportunities for the Rustavi residents to receive benefits had been available from the outset, early-stage complaints might have been defused.

The project: The BTC pipeline project involves the development, financing, construction, and operation of a dedicated 1,760-kilometer crude oil pipeline system to transport oil from the existing Sangachal oil terminal near Baku, Azerbaijan, through Georgia to an export terminal at Ceyhan, Turkey, on the Mediterranean Sea.[5] The project sponsor is BTC Co., a consortium of 11 partners, established in August 2002. British Petroleum (BP), the largest shareholder in the project, leads the project design and construction phases, and operates the pipeline.

The complaint: Residents in Rustavi, Georgia complained that they had not been informed before construction that the BTC pipeline would pass close to their homes. They were concerned about pipeline safety and the effects of construction vibrations on the safety of their homes.

The conflict: While concerns around pipeline safety and possible impacts on the people living along the pipeline triggered this complaint, local residents also felt that they did not expect to see any tangible gain from the project although they would shoulder the burden of environmental risk. The resolution to the conflict addressed both aspects: concerns about pipeline safety were examined, and safety measures were explained better to local residents. In addition, the company's community investment program, which had been limited to rural areas on the grounds of practicality, was extended to benefit impacted urban areas as well. One concrete result was a program to benefit Rustavi schools.

The context: In this and some other complaints regarding the BTC pipeline that the CAO received from Georgian residents, perceptions about the anticipated benefits and risks played an important role. The BTC pipeline passes through Georgia, and the country benefits mainly at the national level in the form of transit fees paid to the government. The consortium aimed to supplement these payments to the national government with local benefits by establishing a community investment program and extending this program to urban Rustavi—previously not included. This helped address the complainants' concerns.

Insights: Review of this complaint, with the benefit of hindsight, showed:
- The consortium did well to try and benefit residents living near the pipeline (for example, by establishing a community investment fund). Unfortunately, however, this fund was originally restricted to rural areas. If opportunities for the Rustavi residents to receive benefits had been available from the outset, early-stage complaints might have been defused.
- The most important avenue of benefit to Georgia is through transit fees paid to the national government. Proactive communication and information sharing by the consortium with the local community about how much money is paid to the government at different levels could have helped direct local residents' questions toward holding their government accountable for how it planned to spend this revenue.

Engagement on local development impact: The following processes and indicators might have helped address concerns and build trust and support for the project.

- *Processes* include (1) finding more creative ways of benefiting local residents along the pipeline route, involving local residents more actively in the design and execution of development programs, and defining eligibility for benefits in a more inclusive way (in this case, by including urban as well as rural communities); (2) communicating proactively about the benefits that the project would generate in the country, including publishing payments made (and to be made) to government at different levels—and disseminating better information about how local citizens could gain some access to these benefits; and (3) choosing indicators in consultation with the affected communities, to monitor and report local impacts of concern to the community, including impacts on the safety of houses, and informing local communities on grievance mechanisms available to them.

- *Indicators* that the company and community could have discussed and developed jointly are presented in table 1.3.

Table 1.3. Baku Tbilisi Ceyhan (BTC) Pipeline–Rustavi, Georgia: Proposed Indicators to Suggest Likely Benefits and Impacts

Type of impact	Examples of indicators and helpful information
Benefits through payments to government	• Payment of transit fees (broken down by national, regional, and local levels) • Tax payments (broken down by national, regional, and local levels) • Projections about future transfers to the government
Benefits through the community investment program	• Spending on community development fund • Number of local residents who benefit • Information on funds, eligibility, and process • Information about outcomes of funds (such as number of schools supported)
Impacts of local concern	• Indicators of structural impact and safety of houses
Impacts on local well-being and development	• Specific local human development indicators (such as those relating to school attendance, quality of health, local incomes, ownership of local assets)

Chapter 2. The Context of the Need to Reform

IFC and MIGA operate in a landscape of changing societal expectations about what the private sector can and should do. The private sector is increasingly called upon to help tackle numerous pressing challenges.

IFC and MIGA operate in a landscape of changing societal expectations about what the private sector can and should do. Once being a good corporate citizen primarily meant paying taxes and abiding by the law; now the private sector is increasingly called upon to help tackle the numerous pressing challenges of our time (for example, the fight against poverty, climate change, and global epidemics such as HIV-AIDS). At the same time, modern communications and an active and globally networked civil society have made the world smaller. A company's actions in one part of the world can affect its brand value in another in just a few days.

Securing a Social License to Operate

Just as a company must secure permits and licenses from local, regional, and national governments, so too must it secure a "social license" from the local and wider community to function as a legitimate and respected operator in their midst.[6] Responsible companies now seek to secure stakeholder support for their activities through several means, including increasingly sophisticated reporting on nonfinancial aspects of their performance that demonstrate their contribution to society, and intensified efforts to enhance contributions to society at different levels.

Engaging with Local Communities to Generate Local Support

Companies are pioneering ways to engage proactively with local communities through a consistent and trusted interface, and to tailor compensation and community development programs to community interests beginning in the early stages of a development project (see box 2.1).

Reporting Benefits to Society

Companies also have made advances in understanding and reporting their development impact on affected societies and also on the larger macroeconomic context in their countries of operation (see box 2.2). They are analyzing and presenting benefits from several different perspectives:

- **Distribution of revenues to different stakeholders.** Companies reveal the distribution of revenues paid to suppliers and contractors (operating costs), to employees (wage bill), to financiers (interest payments, dividends), and to government (tax payments), as well as community investments and retained revenue, in line with guidance from the Global Reporting Initiative (GRI).[7]
- **Contributions to the Millennium Development Goals** (MDGs) (qualitatively or, increasingly, quantitatively).[8] BHP Billiton, for example, shows relevant investments and expenditures broken down by individual goals, such as dollars spent on projects that reduce child mortality.[9]

Box 2.1. Advances in Engagement on Local Development Impact: The Case of Anglo American

"To operate, we need the consent of the people who live in the vicinity of a new mine."
—Sir Mark Moody-Stuart, Anglo American[a]

Anglo American's Socio-Economic Assessment Toolbox (SEAT) is a voluntary process set up to help Anglo American's operations improve their social performance.[b] It demonstrates the progress that responsible companies are making in addressing local impacts through cooperative processes with local stakeholders. In four stages, the company assesses a project's socioeconomic impacts, discusses them with local stakeholders, develops and communicates management responses to key issues, and reports results to affected communities.

The process has been used in 55 Anglo American operations around the world. According to Anglo American, it has led to support for initiatives in education, training, and local enterprise development. The process also has improved the management of social aspects, such as housing, transport, HIV-AIDS prevention and treatment, and recruitment.

a. Anglo American Sustainability Report 2007.
b. Anglo American "SEAT Socio-Economic Assessment Toolbox Overview." Available at: http://www.angloamerican.co.uk/cr/socialresponsibilty/seat/

Box 2.2. Advances in Reporting Benefits to Society: Recent Examples

Unilever and Oxfam. Joint research undertaken by Unilever and Oxfam yielded considerable insight into the poverty reduction effects of Unilever's operations in Indonesia.[a] This research assessed impact at the macroeconomic level—looking at government revenues and the foreign exchange effects of Unilever's operations on Indonesia—and at its effects on workers, suppliers and distributors, consumers, and the community in detail. In a new research project, Unilever is assessing its impact on South Africa.

The International Council on Mining and Metals (ICMM). ICMM's resource endowment initiative was set up with the aim of better understanding the industry's role as a possible driver of development effectiveness. As a key product of the initiative, ICMM has published a Resource Endowment Toolkit to guide practitioners in assessing the socioeconomic impact of mining.[b] The toolkit sets out a wide range of project outcomes at both the microeconomic and macroeconomic levels, and it helps practitioners assess the project context and drivers of project performance, including external causes such as a country's policies and governance.

a. Jason Clay. 2005. *Exploring the Links Between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia*. Unilever and Oxfam. Available at: http://publications.oxfam.org.uk/oxfam/display.asp?isbn=0855985666
b. ICMM (International Council on Mining and Metals). 2006. *The Challenge of Mineral Wealth: Using Resource Endowments to Foster Sustainable Development. Resource Endowment Toolkit: Assessing the Socio-economic Impact of Mining*. Available at: http://www.icmm.com/project.php?rcd=16

- **Separating out benefits to national stakeholders**—usually referred to as "national content"—from those to international beneficiaries.
- **Breaking down benefits by stakeholder characteristics, such as gender and ethnicity.** For example, Heineken assessed the company's impact on Sierra Leone's population, breaking down the population into three groups: "non-poor," "poor," and "food poor."[10]
- **Articulating indirect effects,** such as labor effects in a company's supply and distribution chain, in addition to direct effects. Indirect benefits can be significant. For example, a study of Coca Cola's bottling system and supplier linkages in China estimated that indirect employment amounted to 50,000 people.[11]

Some companies have started to report on the impact of their activities on the poor, such as whether and how the poor are affected as consumers, workers, suppliers, or distributors to the company, or whether the poor can afford the company's product. Unilever, for example, reports on the affordability of its toothpaste by presenting the price of toothpaste in a given country as it relates to the local cost of eggs. Vodafone reports that its associate company in South Africa, Vodacom, has "introduced more than 24,000 community phones into poor, rural and under-serviced areas in South Africa, where there are fewer or no fixed line phones."[12]

Dealing with Emerging International Standards

International organizations and the private sector itself are responding to an environment of changed expectations with a large number of initiatives and agreed standards to help clarify expectations about corporate responsibility and level the playing field. Table 2.2 provides an overview of some of the most important initiatives and standards that have emerged. While these standards have focused on improving environmental and social mitigation, they do not yet provide guidance on how companies ought to report on their contribution to society. Industry-level initiatives are now starting to fill that gap.

The Equator Principles—adopted by over 50 financial institutions worldwide—take a unique place among the global corporate responsibility initiatives in that they commit their signatories to a specific set of expectations and standards regarding the social and environmental performance of their portfolios.[13] By contrast, other initiatives tend to operate at the level of principles, but largely leave it to the companies themselves to determine the implications for their businesses. No formal mechanism has yet been established, however, to hold the Equator financial institutions accountable for meeting the standards that they pledged to uphold.

Within many commercial banks, the impact of the Equator Principles has spread well beyond project finance operations into corporate and trade financing and asset management. This has further tightened the availability of capital to businesses that cannot or will not meet the required standards.

Table 2.1. International Initiatives and Emerging Standards Guiding Corporate Responsibility

Initiatives/ standards	Addresses social and environmental monitoring and disclosure	Addresses development impact monitoring and disclosure	Suggests specific indicators	Sets binding requirements
Global				
Millennium Development Goals	—	—	X	—
UN Global Compact	—	—	—	—
UN Principles for Responsible Investment	X	—	—	—
OECD Guidelines for Multinational Corporations	X*	—	—	—
Global Reporting Initiative	X*	X	X	—
Equator Principles	X*	—	—	X
Industry-level				
ICMM Resource Endowment	X*	X	X	—

* Project level.

Chapter 3. An Assessment of Current Practice at IFC and MIGA

IFC and MIGA have recently updated their own social and environmental policy frameworks in line with evolving private sector practice, and are seeking to improve the way that they measure and report on the development results of their activities.

As financiers and insurers rather than direct operators of projects, IFC's and MIGA's results are determined by their effectiveness in selecting partners and projects, and in influencing project design and execution in a way that generates positive development impacts and limits or mitigates the negative impacts (see box 3.1). Their leverage can vary widely, depending on the specific project circumstance and the point during the project life when they get involved. Furthermore, MIGA, as an insurer, has more limited opportunities for engagement and leverage than IFC.

This chapter assesses four aspects of the way in which IFC and MIGA assess and otherwise manage the development impact of their projects: through adherence to relevant policy requirements, and through the ways that the institutions assess development results, address them in operational processes, and capture them in institutional strategy and incentive systems.

Box 3.1. IFC and MIGA's Limited Leverage on Partners

IFC and MIGA need to exert their influence and leverage at the early stages of the project.

As financiers (IFC) and insurers (MIGA), the institutions generate outcomes through others. They do not operate projects themselves, but pursue their mission and development mandate by supporting those companies that do as well as the financial institutions that fund them. They aim to act as catalysts of foreign investment in emerging markets, bringing other financiers along as they make loans and take equity in companies operating in emerging markets, insure companies against political risk, and provide advisory services.

It is the institutions' clients that implement projects day to day, engage with communities, carry out social and environmental impact assessments (or hire consultants to do so), and generate development results. IFC and MIGA can influence the outcome only through their policies and lending conditions and their advice and technical assistance. Their leverage is greatest at the outset of a project, before a loan is signed (or guaranteed), and where multilateral financing is an important component of the financing package. Their leverage decreases as the project loan is disbursed and then repaid or after the guarantee or insurance is agreed.

Where IFC holds equity in an operating company, some leverage can persist beyond the life of any loan that may also have been made. However, this leverage is limited, as IFC is always a minority investor.

This fact serves to emphasize the need for IFC and MIGA to exert their influence and leverage effectively at the early stages of the project, prior to making disbursements (IFC) or issuing insurance or guarantees (MIGA). Development outcomes and impacts need to be ascertained from the early stages of any project and to be underpinned by the relationships and understandings between IFC/MIGA, the project operator, and the local community.

We present four findings related to this assessment.

Finding 1. Engagement around and reporting of local development impacts is consistent with IFC and MIGA policy.

IFC's and MIGA's policy frameworks already contain provisions relating to community engagement around and reporting on development impact. Performance Standards 1 and 5 contain the most directly relevant client requirements.[14] IFC's and MIGA's Sustainability Policies set out the institutions' commitments around broad community support (BCS) and their role in encouraging clients to report on their nonfinancial performance. IFC's Disclosure Policy commits IFC to disclosing the development results of its portfolio. MIGA's Disclosure Policy includes a commitment to disclose the local development impact of sensitive projects.

Client requirements. Performance Standard 1 requires clients to engage with local communities and to tailor the depth of community engagement to the nature of the project and its anticipated impacts. In projects with significant potential adverse impacts on communities, clients are to facilitate the communities' informed participation and incorporate community views into their decision-making process on issues that affect communities directly, such as sharing of development benefits and opportunities.[15]

Performance Standard 5 requires clients to provide people whose livelihoods and income levels are adversely affected as a result of project-related land acquisition with "targeted assistance (e.g., credit facilities, training, or job opportunities) and opportunities to improve or at least restore their income-earning capacity, production levels, and standards of living."[16]

Institutional commitments: Broad community support. In addition, IFC and MIGA commit themselves in the Sustainability Policy[17] to go ahead with projects that have significant adverse impacts only where the project enjoys broad community support. This commitment is further elaborated in Guidance Note 1[18] and in the Environmental and Social Review Procedure.[19] IFC and MIGA are normally expected to review both the client's community engagement process and the level of support or dissent for the project among the project-affected community.

The Procedure specifies that as part of an assessment of the project context, IFC and MIGA will assess whether communities "are in receipt of or can be expected to receive net benefits as a result of the project (disaggregated by subgroups, including vulnerable groups)"such as "improvement in living standards, employment opportunities accessible to affected-population, or community development commitments."[20]

Institutional commitments: Development impact reporting. IFC and MIGA further commit in the Sustainability Policy to "encourage the client to report publicly on its social, environmental, and other nonfinancial aspects of performance."[21] The Disclosure Policy sets out institutional commitments to disclosing development results. For each IFC and MIGA project, the publicly disclosed Summary of Proposed Investment (SPI) sets out anticipated development benefits *before* the institutions' Board of Directors considers the project for approval.

MIGA alone commits in its new Disclosure Policy to presenting project-level development impacts once the project is underway. It specifies that "MIGA will make available reports on the development impact on the local community of sensitive projects for which it is providing guarantee support."[22] The first projects to be processed under this new policy are expected in 2008.

ACTION POINT

IFC's and MIGA's current policy frameworks already contain the key ingredients for an approach more focused on achieving and communicating local development impact. Our recommendations are designed to help support and strengthen the implementation of these commitments by proposing processes and indicator examples for client engagement and reporting (see recommendations 1 to 3), by helping IFC and MIGA clients improve reporting on core impacts and indicators (recommendation 4), and by offering suggestions on how to implement an appropriate focus on local development impact in the institutions' investment processes and due diligence (see recommendations 5 to 8).

IFC reports on the development results of its activities in aggregate. In its Disclosure Policy, IFC commits to reporting on its development effectiveness at least annually, presenting the development results of its portfolio in aggregate as well as disaggregated by area of activity, and specifying the measures it will take to enhance the development results of its activities.

Finding 2. IFC's and MIGA's assessments of development results do not adequately capture impacts on local livelihoods.

IFC and MIGA take a broad view of development impact, considering an investment's business success, its economic impacts, and social and environmental performance, along with broader private sector development impacts such as demonstration effects. Impacts are assessed using a stakeholder framework.

Using its Development Outcome Tracking System (DOTS), IFC monitors the development results of all of its investments throughout their life, focusing on development *outcomes*, for reasons of cost and practicality. In this assessment, local communities typically are captured as project "neighbors." The client's adherence to IFC's Performance Standards is used as a proxy for establishing whether there are positive or neutral impacts on local people or satisfactory social and environmental performance. A more detailed analysis that uses the same parameters is carried out through in-depth project evaluations overseen by IFC's and MIGA's Independent Evaluation Group (IEG).[23] The analysis and stakeholder framework employed in DOTS and by IEG already captures some local outcomes, such as employment creation or locally sourced goods and services, but they are rarely separated out.

Given the focus of the DOTS and IEG framework on outcomes and broader stakeholder effects, however, the question of whether *local livelihoods* or living standards have been positively or negatively affected by an investment is not directly addressed by IFC's analysis of development results in DOTS.

MIGA does not have a comprehensive development outcome tracking system but it benefits from an annual review undertaken by IEG-MIGA and the introduction of a pilot Monitoring and Evaluation system to assess development effectiveness in 2006/7.

ACTION POINT

The impact of IFC and MIGA projects on local livelihoods and living standards is not adequately addressed in the institutions' current development impact analysis. Some projects will not necessarily generate local benefits. For projects with significant adverse local environmental and social impacts, however, this assessment of local impact should be a major focus. In recommendation 5, we suggest ways to strengthen the focus on local development impact in current IFC and MIGA processes.

Finding 3. Strengthening IFC's and MIGA's focus on achieving local development impact may require improved coordination between the economist and the social and environmental development specialist functions and processes.

IFC and MIGA already handle projects using well-established processes. Throughout the investment life, multidisciplinary teams—including social and environmental development specialists, regional and industry economists, technical experts or engineers, and lawyers—address the different dimensions of project performance and sustainability. In this division of labor, local development impacts fall between the responsibility of the social development specialist and the project economist.

The social development specialist reviews the client's environmental and social management and consultation activities, with a focus on whether potential risks and adverse impacts have been adequately assessed and managed. For example, the social development specialist assesses any community resettlement program, including efforts to restore the livelihoods of affected people. In this context, development opportunities for local communities tend to be addressed as part of community development programs, often set up to compensate communities for adverse impacts.

In parallel, the project economist assesses development outcomes as part of the project's economic analysis, and identifies development outcome indicators for tracking in DOTS. This assessment includes some local outcomes, such as whether a company plans to use local farms as sources for inputs for agribusiness production. While these project aspects can also impact local livelihoods quite profoundly, the economic analysis does not usually separate out the local impacts or try to capture the impact on local livelihoods and living standards.

There are significant opportunities for improved integration and cooperation between these two strands of analysis and due diligence. If adopted, these changes would result in a much-improved focus on generating and capturing local development impacts on the ground.

ACTION POINT

We believe that some improved integration of economic, environmental, and social analysis during the project due diligence and supervision process is an important step in achieving improved local development impacts. This objective would be facilitated if local development impact were routinely and regularly addressed in key management decisions around sensitive projects. We offer recommendation 5 to help address this issue throughout the project life.

Finding 4. IFC and MIGA strategy and incentive systems need to capture local development impact.

The incentives and targets that the institutions set at the highest levels translate into work programs and incentives for staff and managers throughout IFC and MIGA. It is at the level of incentives and targets that the impacts on local livelihoods need to be better reflected to raise the visibility of local impacts.

Institutional Strategy and Corporate Scorecard. IFC's and MIGA's 2007 strategies identify each institution's priorities, against which progress is tracked according to specific targets in the corporate scorecards. IFC's strategy presents five corporate priorities: strengthening the focus on frontier markets; building long-term partnerships with emerging players; differentiating the Corporation better by building its own sustainability competencies; addressing constraints to private sector growth in infrastructure, health, and education; and emphasizing local financial market development.[24] MIGA's priorities are infrastructure, frontier countries, South-South investments, and conflict-afflicted countries.[25]

In measuring progress, the corporate scorecard for IFC is currently heavily focused on investment targets and measures, such as the levels of new investments in frontier markets or in the health and education sectors. These same targets are also being used as proxies for anticipated "development impact." To capture realized impact, IFC's corporate scorecard now also includes two ex post development results measures, drawing on the evaluation results of the IEG and development results captured in DOTS. These are the share of recently matured projects rated successful by IFC's IEG, and those rated successful in IFC's own DOTS. The success rates are based on a three-year rolling average for projects approved six to eight years previously.

Regional and sector strategies. Each year, IFC and MIGA decide on their regional and sector strategies and budget allocations. Since fiscal year 2007, development results measures captured in DOTS have been part of the process at IFC, and departments have been advised that a good understanding of their development results and a plan for improving results must be presented to secure their desired budget allocation. These strategies help guide IFC's project selection and business development activities.

Incentives. The institutional strategy translates into targets and incentives for department directors, managers, and individual staff members. The absence from this process of concrete measures of the local impacts associated with sensitive investments means that neither investment staff members nor their managers are given any real incentives to tackle this challenging area that is so important for IFC's and MIGA's risk management and development results.

ACTION POINT

We believe that the effect of investments on local communities and the achievement of local development impacts are not sufficiently integrated into IFC's and MIGA's institutional incentive systems. We offer recommendation 8 to help address this issue.

Chapter 4. Recommendations

Our recommendations are rooted in our experience that the distribution of project risks and benefits to different project stakeholders, and perceptions about this distribution, are important underlying causes of conflict around projects and complaints to the CAO. To reduce conflict and improve project performance and to strengthen IFC's and MIGA's development results, the CAO offers recommendations to help achieve the following three outcomes:

- Outcome 1. Build strong corporate-community relationships through improved engagement on development impacts
- Outcome 2. Secure a social license to operate through broader development impact reporting
- Outcome 3. Strengthen internal processes and incentives at IFC and MIGA to focus on achieving positive local development impact.

Recommendations under Outcomes 1 and 2 propose processes and tools to help companies generate support for their operations by engaging directly with project-affected communities, and by reporting on their broader contribution to society. Recommendations under Outcome 3 focus on the management systems of IFC and MIGA and the way they could be adapted to strengthen both institutions' focus on local development impacts.

Outcome 1. Build strong corporate-community relationships through improved engagement on development impacts

Where company operations generate risks and adverse impacts on local communities, IFC and MIGA should encourage the company to address development impacts as well as social and environmental risks in their consultations with project-affected communities. This should be a binding IFC/MIGA requirement in all projects that yield, or are perceived to yield, significant social and/or environmental risks and impacts on local communities.

The depth and sophistication of a company's engagement, monitoring, and reporting activities will be highly specific to the context. We believe it is in the interest of all companies to articulate and report their impacts on, and contribution to, society. Even where company operations yield no, or very limited, impacts on local communities, reporting on core impacts and indicators will earn the company respect and support (see recommendation 4). Companies that operate complex projects with significant potential adverse impacts—projects with the highest potential for conflict—will need to employ more sophisticated monitoring and reporting activities and allow for greater participation of project-affected communities. The level of cost and effort associated with these activities should correspond directly to a project's inherent risks and potential for conflict.

We encourage adoption of three recommendations to strengthen corporate-community engagement on local development impact:

- Address local development impacts in direct consultation with local communities (recommendation 1).
- Provide opportunities for local stakeholders to share in project-generated benefits (recommendation 2).
- Monitor and report development impacts to local communities on a regular basis, throughout the life of the project (recommendation 3).

Recommendation 1. Address local development impacts in direct consultation with local communities.

Good indicators capture the distribution of impacts and risks to different groups in the community, disaggregating information by income, gender, ethnicity, or age, depending on the local context.

Conduct an initial assessment of local impacts.
Companies should assess the likely channels of local development impact as an integral part of their social and environmental due diligence. Impacts on local stakeholders can be assessed using IFC's existing stakeholder framework,[26] bearing in mind that local people will likely be affected in multiple ways since they occupy different stakeholder roles (see table 4.1). For example, a local employee may be exposed to noise or pollution from a company's operations, but may also benefit from health services supported by the company. The company's development impact assessment should capture both positive and negative impacts in as objective a manner as possible, and assess which local stakeholders are likely to be affected by such impacts.

Table 4.1. Typical Local Stakeholders to be Considered in an Assessment of Local Development Impacts

Stakeholder	Definition/Impact
Workers	Locals working directly at the company or indirectly for suppliers or distributors linked to the company, or for the company's competitor.
Business owners	Locals who gain contracts to supply the company (for example, a local farmer with a small plot of land, or a large catering company). A competitor whose profit margins fall, or even goes out of business because of the project could also be included.
Consumers	Local users of health and education services who are affected positively or negatively by a project, or local users of infrastructure constructed, used, maintained, or otherwise impacted by company operations. Local consumers may also feel the impact of inflation as a result of company operations, such as higher prices for housing or consumer goods.
Neighbors/affected communities	Local communities may be affected by environmental and social impacts, such as noise or pollution, or restrictions or improvements in their access to natural resources, such as clean water. The project could also affect the value of their assets, such as land. The impacts of displacement and resettlement as a result of land acquisition should be captured in this context. These will normally be addressed in social and environmental impact assessments.
Government	Local government may benefit from municipal tax payments. Sometimes, local government also oversees community development funds provided by the company.

Discuss assessment findings and anticipated impacts with local stakeholders.
The initial assessment should be discussed with the community to understand, and if necessary clarify, their expectations concerning the project and its development impact. In this context, companies should pay careful attention to the distribution of risks and benefits: those who are at most risk or fear project impacts should have opportunities to benefit. All local concerns about impacts should be taken seriously and addressed, including instances in which experts find community fears to be unfounded. Discussions should also give local stakeholders the opportunity to participate in choices about the type of benefit that may be provided (see box 4.1).

Box 4.1. Integrating Development Impacts into Social and Environmental Impact Assessments (SEIA)

IFC can play a leadership role in producing best practice examples and training materials to help companies better assess development impact.

Development impact monitoring and reporting should be integrated into the established processes of sponsors as well as those of IFC and MIGA. Many companies already use environmental management systems to mitigate operational impacts. Potential development impacts and benefits could be assessed as part of Social and Environmental Impact Assessments (SEIAs), discussed during community consultations, and reported to communities using existing lines of communication. The SEIA will be most powerful if used early in project planning to help find the best feasible solutions to address company and community interests.

Strengthening capacity for development impact reporting
Most professionals currently carrying out SEIAs are not trained in the area of development impact monitoring and reporting. This is an area where IFC can play a leadership role in providing best practice guidance and training materials. IFC's and MIGA's SEIA requirements for high-risk projects should evolve to require an analysis of development impacts. Within IFC, specialists assessing the robustness of client SEIAs may need access to economic and socioeconomic expertise. See also recommendation 5.

Agree on indicators with local stakeholders and create a predictable monitoring and reporting process.
With the initial assessment and community consultations as a basis, the company should agree on a set of development impact indicators with local stakeholders, along with a process for monitoring and reporting on development impact to these stakeholders.

Indicators should capture all major anticipated risks and impacts, and directly address the key concerns of local communities (see table 4.2). The number of indicators will depend on the complexity of the project and the significance of the risks or benefits they are to capture. Indicators should be quantifiable and measure progress against time-bound benchmarks or targets. *Outcome* targets (such as the number of local contracts) may help illuminate key drivers influencing progress toward desired *impacts*—the increase in local well-being as measured by local socioeconomic indicators (such as school attendance or quality of local housing). Good indicators will capture the distribution of risks and benefits to different groups in the community, disaggregating information by income, gender, ethnicity, or age, depending on the local context.

Table 4.2. Questions to Guide Local Development Impact Assessments

Channel of impact	Examples of indicators
Employment effects	
• Will local people benefit through job creation? • Will there be indirect employment effects in the local supply and distribution chains? • Will there be indirect employment effects on local competitors? • Will there be indirect employment benefits in complementary businesses of the company?	• Number of jobs created at company (by gender, in management) • Wages above comparable local wages • Number of local people receiving training • Number of jobs created indirectly in suppliers and distributors • Number of jobs lost in competing businesses • Number of jobs gained in complementary businesses
Impacts on local business owners	
• Will local businesses be engaged to supply or distribute goods and services? • Does the company compete directly with local businesses? What will be the effect on local competitors? • Do local businesses benefit from the company's presence (for example, in the form of improvements in local infrastructure or upgrades in the quality of local supplies)?	• Spending on locally supplied goods and services • Distributors' earning (for example, the number of products distributed times the average profit margin)
Impacts on local consumers	
• Will local people benefit from provision of local services, such as health or education? • Will local people be able to use local infrastructure provided by the company, such as roads, electricity, or clean water? • Will the company's use of existing local infrastructure and resources restrict local people's access, use, or price of use? • Will the company's presence affect local price levels (for example, for housing or consumer goods)?	• Number of patients treated at company health facilities • Number of students educated at company-supported schools (by gender) • Perceptions of facility quality collected through surveys • Number of kilometers (km) of road built by company • Number of local households benefiting from company-provided electricity/fuel • Amount of clean water available to the public • Amount of clean water provided by and consumed by the company • Local consumer price index, based on a representative basket of goods

Table 4.2. Questions to Guide Local Development Impact Assessments, continued

Channel of impact	Examples of indicators
Impacts on local communities/neighbors • Will local communities be affected by environmental and social impacts such as noise or pollution? • Do mitigation and compensation for adverse impacts contain additional benefits: for example, in the form of upgraded housing or new assets? • Will local people benefit from company supported development programs?	• Indicators capturing specific local environmental and social impacts, such as noise and pollution levels, spills, accidents involving company vehicles • Relevant local health indicators, such as prevalence of communicable diseases, maternity and child health statistics • Relevant local socioeconomic indicators: for example, change in ownership of local assets, quality of local housing
Impacts on local government • Will the company pay taxes or other fees to the municipality or make payments at the national level that are earmarked to return to the local level?	• Taxes and fees paid to local government

External factors may influence community well-being and environmental health. Therefore, the most meaningful indicators will be those that measure impacts directly caused or influenced by company operations. There may be circumstances, however, in which impacts of local concern are influenced strongly by external variables yet should be monitored to help clarify project-related risks and impacts.

Certain indirect impacts arising from company operations, such as impacts on local competitors, may be important aspects of the initial assessment and distribution of risks and benefits. It may not be possible, however, for the company to track these indicators and report them back to the community.

Transparency around monitoring and reporting processes is paramount. Parties on all sides should have a clear understanding of which indicators will be monitored, how, and by whom, as well as when and how monitoring results will be communicated.

Recommendation 2. Provide opportunities for local stakeholders to share in project-generated benefits.

> The company should find ways to address real and perceived vulnerabilities of local communities and to create beneficial opportunities for those who may be negatively affected or feel vulnerable to project impacts.

The provision of adequate, well-advertised opportunities to benefit from a project can help a company establish and maintain strong relations with local communities and secure a social license to operate. If the initial assessment and consultations around project benefits and risks show that there are local groups that may be negatively affected or feel vulnerable to project impacts, the company should find ways to address perceived vulnerabilities and create opportunities for those people to benefit from the project.

Create benefits that directly address local concerns.
In many cases, local communities have concrete concerns that can be addressed directly. A company that uses local water, for example, may address people's fears around their access to clean water by investing in upgrades to the local water system, establishing a monitoring system that keeps local people informed of the quantity and quality of the water supply, and perhaps by involving them in the monitoring process itself to build trust. This type of investment speaks directly to local concerns and generates benefits for local communities, thereby lowering the company's operational risk.

Explore opportunities that may generate mutual benefit for the community and company.
When engaging with local communities around desired benefits, companies may learn about barriers that exist to potential opportunities (for example, the ability of local entrepreneurs to win supplier contracts). Such hurdles may be addressed through up-front training and capacity building for local workers and suppliers. This may generate long-term benefits for the company in the form of locally available labor, goods, and services and for local communities through access to jobs and contracts.

Recommendation 3. Monitor and report development impacts to local communities on a regular basis, throughout the life of the project.

Reporting back to the community on a regular basis increases the company's accountability and transparency, builds trust, and provides opportunities to identify unforeseen impacts of the project.

Companies should monitor project impacts using indicators agreed upon with the local community and report monitoring results regularly to the community in an accessible format. Reporting back to the community on a regular basis increases the company's accountability and transparency, builds trust, and provides opportunities to identify unforeseen impacts—both positive and negative—of the project.

Explain what monitoring results mean.
Companies should report whether the previously agreed targets have been achieved, and explain the reasons why targets may have been exceeded or have not been met. Indicators that are closely related to a company's core business, such as employment creation or impacts on the supply/distribution chain, are highly dependent on the company's business success and may fluctuate. Changed project circumstances may result in the creation of fewer jobs or sourcing of fewer inputs—or the opposite may be the case.

Tailor monitoring and reporting processes to project and community characteristics.
Given the cost and time requirements of impact monitoring and reporting, the company's choice of process and indicators should be tailored both to the size and nature of the project and to the characteristics of the project-affected communities. These characteristics may include the number of people affected by company operations, their expectations of the project, the effectiveness of local institutions, any legacy of local conflict, and their level of trust in the company.

Table 4.3 provides an overview of different processes for assessing and monitoring development impact. Box 4.2 presents these different processes in more detail.

Table 4.3. Tools for Monitoring and Reporting Impact

Tool	When to use	Examples
Establishment of baseline	For indicators tracking social, socioeconomic, and environmental impact	Where a company tracks the number of HIV-AIDS infections in the local community, it should aim to obtain baseline information of the prevalence rate at entry.
Monitoring of comparable communities	For indicators tracking social, socioeconomic, and environmental impact	The company might track the HIV-AIDS prevalence rate in a comparable community (for example, a community not subject to an influx of migrants, or not exposed to company-sponsored HIV-AIDS awareness and/or treatment programs).
Service surveys	Where community members enjoy access to company-supported or company-provided health or education facilities	Asking patients or parents to fill out simple surveys after using health or education facilities; or surveying users at the end of the school year as to whether access to services has improved.
Household surveys	To gain information about differential impacts on local people	Using survey questions to capture changes in household assets, health and education status, and employment.
Socioeconomic index	To measure changes in local welfare objectively over time	Using an index combining a limited number of locally relevant indicators (for example, capture the quality of housing, access to clean water and sanitation, education levels, health statistics, and ownership of assets and land).
Wealth ranking	To capture changes in local welfare subjectively over time	Local people may find their situation has improved and consider themselves better off. Conversely, they may consider their situation less comfortable than before.
Third party monitoring	To build trust where company experts are not trusted	The company may involve a local research institute or nongovernmental organization in the monitoring of project impacts.
Participatory monitoring	To build trust where company experts are not trusted	Representatives of the local community may be included in project impact monitoring (for example, in taking and testing water samples).
Involvement of third party facilitator	To help companies communicate with local communities where a company has limited capacity and experience in-house, or where there is lack of trust	Use of third party facilitators, whether professional mediators or locally respected organizations, can help the company communicate with local communities, especially when first establishing a corporate-community relationship.

Box 4.2. Additional Information on Tools for Monitoring and Reporting Impact

Establish a baseline and monitor comparable communities.
Collecting baseline information helps companies understand the impact of their operations on local community welfare. Ideally, such baseline information should be collected both for project-affected communities and for similar communities outside of the project's sphere of influence. Development impact indicators can then be compared against this baseline information throughout the project life, as well as against information of comparable communities (control groups).

Using the example in table 4.3, a company operating in a country with a high incidence of HIV-AIDS should aim to assess the impact of company operations on prevalence rates: for example, negatively, as a result of in-migration of workers, or positively, as a result of company-sponsored HIV-AIDS awareness programs. The prevalence of HIV-AIDS may appear high without baseline information but may decrease when compared to a baseline year. Similarly, the prevalence of HIV-AIDS may have increased but by less than comparable communities, signaling a regional or national problem.

This information can help tailor the company's HIV-AIDS awareness and treatment programs and also serve to inform public debate and perceptions around health, enabling a responsible company to defend itself against claims that the company's presence is at fault for the presence or spread of the disease.

Use surveys to gain qualitative information about services.
Surveys on health and education service quality can help companies gather qualitative information from local communities to complement output and outcome measures, such as "patients treated" or "school attendance." Surveys can be short and simple and should be conducted at regular intervals.

Use household surveys to learn about distributional impacts.
Household surveys help companies gain a better understanding of a project's distributional impacts. By disaggregating information by gender, ethnicity, or income group, such surveys allow an analysis of who benefits and who loses. Companies can then use this information to inform local communities about project impacts and tailor benefit programs to those groups most at risk from the project.

Create a socioeconomic index to capture welfare changes objectively.
In complex projects with significant impacts, the use of a socioeconomic index can be a meaningful tool for tracking changes in local welfare objectively. For example, a study of the impacts of the Chad-Cameroon oil pipeline project created a socioeconomic index incorporating such measures as housing conditions, school attendance, ownership of mosquito nets, access to latrines, access to regular revenue, child health, and ownership of equipment such as radios. The index was used to track changes in welfare over time, and allowed for comparisons between affected communities and those outside the project area.[a]

Conduct wealth-ranking exercises.
Another, more subjective, approach to measuring changes in local community welfare is to conduct wealth-ranking exercises at the beginning, during regular intervals (for example, every three to five years), and at the end of the project. For this approach, communities themselves identify how they would categorize poor, comfortable, and well-off groups, before placing themselves in those groups.

Box 4.2. Further Information on Tools for Monitoring and Reporting Impact (continued)

Establish third party or participatory monitoring processes to build trust.
Where insufficient trust exists between a company and local communities—for example, where communities do not trust or believe company experts—a constructive way for companies to address concerns can be to partner with a trusted third party, such as a nongovernmental organization or a research institute, to help monitor project impacts and certify monitoring results.

Another means of building trust is to involve community representatives in monitoring activities.[b] Participatory monitoring can be particularly powerful where communities are concerned about specific project impacts, such as water quantity or quality, and can address real and perceived threats to local livelihoods before concerns—left unaddressed—may lead to conflict.

a. Study carried out by the Groupe d'Etudes des Populations Forestieres Equatoriales (GEPFE).
b. See the CAO's document, *Participatory Water Monitoring: A Guide for Preventing and Managing Conflict* (2008).

Outcome 2. Secure a social license to operate through broader development impact reporting

Recommendation 4. Report on broader development impact to local and national stakeholders.

Reporting on broader impacts is particularly recommended for companies that operate in sensitive sectors, such as the extractive industries, agribusiness, manufacturing, and infrastructure.

Since local communities are not a company's only stakeholders, company reporting on broader sustainability aspects, development outcomes, and impacts to other national stakeholders is equally important. This understanding is reflected in IFC and MIGA's respective policies on social and environmental sustainability, which commit the institutions to "encourage the client to report publicly on its social, environmental, and other non-financial aspects of performance."[27]

IFC and MIGA should help their clients build support for their operations by assessing and articulating their operations' broader development impacts. This can be incorporated into existing avenues of reporting, such as annual or sustainability reporting, and disclosed on company Web sites. Reporting on these impacts is particularly recommended for companies that operate in sensitive sectors, such as the extractive industries, agribusiness, manufacturing, and infrastructure.

Table 4.4 presents channels of impact for reporting in this context, along with examples of relevant indicators.

Table 4.4. Indicators of Broader Development Impact
(indicators most relevant for local impact are shaded)

Stakeholder impact	IFC tracking	External standard	Comments
Broader and global impacts			
National content/ return to host economy	—	—	Very helpful in some national contexts, but requires detailed analysis and is costly and time-consuming
Contribution to MDGs	—	MDG	Some corporate reporters, mainly qualitative
Greenhouse gas emissions	CES*	GRI	Tracked for projects involving emissions > 100,000 tons/year
Impacts on government			
Government revenues (national)	DOTS**	—	Still sensitive in most developing countries
Local government share	—	—	Can enhance local government accountability
Governance/corruption	COC***	GRI	Analyzed ex ante as part of Extractive Industries Review (EIR) management response commitments
Impacts on workers			
Jobs created	DOTS	GRI	Dynamic and not easy to communicate: new vs. saved vs. lost jobs (DOTS tracks total employment)
Local jobs	—	GRI	Highly relevant for local communities[a]
Employee training (number, spending)	DOTS	GRI	Important indicator of sustainability of impacts[a]
Locals in management	—	GRI	Relatively common company indicator[a]
Women in management	—	GRI	Relatively common company indicator
Wage levels (relative to minimum wage or industry, for example)	—	GRI	Some corporate reporters (Unilever reports wages above minimum wage)[a]
Occupational health and safety: fatalities, lost time, injuries	CES	GRI	Sensitive information, but a must for responsible companies
Core Labor Standards compliance aspects	CES	GRI	Some corporate reporters (such as Nike); assessed as part of IFC's appraisal process

Table 4.4. Indicators of Broader Development Impact (continued)
(indicators most relevant for local impact are shaded)

Stakeholder impact	IFC tracking	External standard	Comments
Impacts on suppliers/ distributors			
Spending on local goods and services	DOTS	GRI	Tangible local benefit[a]
Employment effects on local suppliers	—	—	Often much larger than direct employment[a]
Distributor earnings	—	—	Can be highly significant (such as for the consumer goods industry)
Impacts on consumers			
Better/safer/cheaper product for consumers	DOTS	—	Consumer effects usually spread among many people, not just local ones
Affordability of product for the poor	—	—	Consumer effects usually spread among many people, not just local ones
Local consumption of company-provided local infrastructure	DOTS	GRI	Tangible local benefit[a]
Impacts on local community/neighbors			
Investments in local infrastructure	DOTS	GRI	Tangible local benefit[a]
Spending on local health/educational facilities	DOTS	—	Tangible local benefit[a]
E&S impacts and effect of company mitigation/ compensation	CES	—	Tangible local impact[a]
Company-supported development programs	CES	—	Tangible local impact[a]
Impact on local income levels	—	—	Tangible local benefit[a]

CES*–IFC's Environmental and Social Development Department
DOTS**–IFC's Development Outcome Tracking System
COC***–IFC's Oil, Gas, Mining and Chemicals Department
a. See table 4.2 for indicator recommendations.

Outcome 3. Strengthen internal processes and incentives at IFC and MIGA to focus on achieving positive local development impacts.

IFC and MIGA should strengthen internal processes and incentive structures to focus on achieving positive local development impact in all projects with significant social and environmental risks. We encourage the adoption of four recommendations:

- Address local development impact in existing investment processes and documents (recommendation 5)
- Support clients in engaging in consultations with local communities on local development impacts (recommendation 6)
- Improve reporting on the local development impact of IFC and MIGA projects with significant impacts (recommendation 7)
- Integrate measures of local development impact into institutional incentive systems (recommendation 8).

Recommendation 5. Address local development impact in existing investment processes and documents.

The analysis of social and environmental risks and impacts, and of economic impacts, should be better integrated.

IFC and MIGA have well-developed investment processes, including preparation of project documentation and disclosure of selective information. Within these processes, the institutions can accommodate an enhanced focus on local development impacts for projects with significant social and environmental risks. To achieve this, the analysis of social and environmental risks and impacts, and of economic impacts, should be better integrated.

Social and Environmental Impact Assessments (SEIAs): SEIAs are required in all projects with significant social and environmental impacts. They should be used to assess local development impact along with social and environmental risks and impacts, and to discuss anticipated impacts with local communities.

- IFC's and MIGA's SEIA requirements should evolve to require an analysis of local development impact.
- IFC should produce best practice examples and training materials for professionals carrying out SEIAs so that local development impact information is integrated routinely into these processes.
- Project economists should assist the social and environmental development specialists in identifying potential local economic impacts of the project, and assessing the quality and completeness of SEIAs in this respect.

Action Plans: These plans should set out, in detail, the agreement between the company and communities regarding:

- Anticipated opportunities and programs for local communities to benefit from the project
- Specific indicators and targets for measuring local development impacts
- The processes of monitoring and reporting development impact to local commmunities, including the frequency of such reporting, which should be no less than once annually.

Progress against these Actions Plans should be better integrated into project management decisions in such a way as to enhance leverage (for example, by linking them to disbursement).

Project economic analysis: This analysis should capture local economic impacts as part of the analysis of stakeholder benefits, drawing on development impact information available from the SEIA process and baseline studies.

Key management decisions: Key decisions in the life of any project with significant social and environmental impacts—such as the decision to move a project to the appraisal stage, to recommend it for Board approval, or to disburse funds—should consider local development impact systematically and comprehensively. An assessment of local risks and impacts and their distribution on different local stakeholders should be included in briefing books and addressed in all decision memoranda. When an investment poses significant social and environmental risks to local communities, or specific groups within the local community, these key management decisions (including disbursements) should be made only when those at risk can also be demonstrated to share in the opportunities and benefits from the project.

Broad community support: When IFC or MIGA staff members endeavor to assure themselves that there is broad community support for a project, they should check specifically that:

- Local communities have been consulted on local development impacts along with social and environmental risks.
- Specific indicators for monitoring key impacts have been agreed.
- A process for monitoring and reporting these indicators has been established and is understood and agreed to by communities.

Summary of Proposed Investment (SPI): This institutional disclosure of project-level information already includes information about a project's anticipated development impacts. The SPI of projects with significant social and environmental risks should also routinely set out anticipated local development impacts.

Board reports: Anticipated local development impacts should be discussed in the Board Report of any project with significant social and environmental risks and impacts. The Board Report should set out the agreed monitoring process and indicators of local development impact alongside broader development impacts, as well as distributional aspects–which groups are expected to gain from company operations, which are vulnerable to project risks, and how the company is aiming to benefit those at risk.

Supervision: During supervision visits to the project site, IFC and MIGA staff should assess whether companies are monitoring development impact indicators and reporting them to the local community. When assessing the effectiveness of the company's monitoring and reporting activities, community representatives should always be consulted, in addition to assessing company-provided information.

Client reporting requirements: Client reporting requirements should specify the agreed upon local development impact indicators that need to be included in client reports to local communities. Clients need to post their reports to the community on IFC's and MIGA's Web sites.

Monitoring and tracking systems: Indicators and targets of local development impact that were agreed with local communities should be captured in the Environmental and Social Review Document (ESRD) prepared by IFC's Environmental and Social Development Department (CES). Significant local impacts should also be tracked in DOTS. MIGA should also establish more comprehensive systems to track project impact and performance consistently.

In-depth development impact studies on a select number of projects: The current monitoring and reporting processes of IFC and MIGA do not adequately capture a project's development impacts. IFC's DOTS focuses on development outcomes—for understandable reasons of cost and practicality. MIGA has yet to start tracking development outcomes for all its projects.

IFC and MIGA should conduct in-depth development impact evaluations for selected projects to supplement information on development outcomes. Development impact evaluations should be carried out for at least one project for each sector every three years. The insights gained should be used to inform future project choice and design, as well as monitoring and evaluation activities. A particular focus of these in-depth studies should be impacts on project-affected communities.

Recommendation 6. Support clients in engaging in consultations with local communities on local development impacts.

There is significant potential for IFC and MIGA to play a leadership role in helping responsible private sector operators engage with local communities on development impact.

There is significant potential for IFC and MIGA to play a leadership role in helping companies engage with local communities on development impact, both by supporting and advising their own clients, and by providing guidance materials and training for professionals in the area of corporate social responsibility.

IFC and MIGA should help client companies by providing guidance on the following:

- Conducting the initial assessment of impacts and ascertaining what the impact of a specific project may be
- Engaging in consultation processes and adapting the initial assessment, as well as possible indicators, to best capture impacts of concern
- Developing ways to enhance the development opportunities for local stakeholders and ensuring that those most at risk from negative impacts benefit
- Establishing impact monitoring and reporting processes that suit the project circumstances and help create trust and strengthen community relations.

IFC and MIGA should consider tailoring their advisory services to help interested companies build relevant capacity in-house and carry out these activities. The two institutions are also in a strong position to develop guidance materials and training programs for consultants and SEIA/evaluation professionals to incorporate a local development impact focus into their work.

Recommendation 7. Improve reporting on the local development impact of IFC and MIGA projects with significant impacts.

Post client reports to communities on the IFC and MIGA Web sites.

As part of client reporting requirements to IFC and MIGA, companies should share the local development impact assessments that they provide to local communities. IFC and MIGA should post these reports on their respective Web sites, along with other publicly posted project information such as a project's SPI. By posting client-provided information, IFC and MIGA will be respecting client confidentiality—part of their charge—while disseminating helpful information more widely.

Provide annual updates of project Summaries of Proposed Investment (SPI).
While SPIs set out anticipated development impact information before the Board considers the project for approval, currently this information is not updated once the project is under way. This means that the older a project, the more outdated the information contained in the SPI. IFC and MIGA should consider revising the SPI annually for projects with significant social and environmental impacts, including broad information on changes to the project and whether anticipated development impacts have materialized, reflecting information posted in client reports to local communities. Here, IFC can report whether broader development impacts have been achieved—such as sector impacts or demonstration effects, which clients will not normally capture in their reporting to local communities.

Present information on local development impact in IFC's and MIGA's annual report.
IFC moved to integrated triple-bottom-line reporting in its 2007 annual report, including reporting on the development results of its projects along with reporting of fiscal year results and sustainability performance. MIGA does not yet report comprehensively on its development results. Reporting on development results should include information about the local development impact of the institutions' high-risk projects. How successful have IFC and MIGA been in selecting, influencing, and supervising high-risk projects that engage local communities on local development impacts and generate positive local impacts? Reporting of these impacts, and broader development results, promotes institutional accountability and can help demonstrate how responsible private sector operators generate benefits and gain a social license to operate.

Recommendation 8. Integrate measures of local development impact into institutional incentive systems.

Track measures of local development impact.
As an important aspect of institutional risk management, and as a measure of whether the institution is achieving its development mandate, IFC and MIGA should monitor the quality of local engagement and whether the expected development impacts are met, particularly for projects with significant social and environmental impacts (see box 4.3).

Include local development impact information in management systems.
Each operational manager should receive regular updates about the development results of the portfolio under his or her responsibility, including information regarding the quality of local engagement and the development impact of all projects with significant social and environmental risks and impacts.

Departmental scorecards and IFC's and MIGA's *institutional scorecards* should reflect the performance on local development impacts of a portfolio of projects with significant social and environmental risks and impacts. The following type of indicators could be used at this level:

- Percent of high-risk projects that have specific local development outcome indicators (with a target of 100 percent)
- Percent of high-risk projects that have met 80 percent of local development outcome targets
- Percent of projects achieving a positive local development impact rating (see box 4.3).

Box 4.3. Creating a Composite Local Development Impact Rating

IFC and MIGA could develop a single rating to capture the quality of local engagement and development impact for projects with significant social and environmental impacts. This **local development impact rating** could take the form of an index variable, addressing both process and outcome aspects:

- Have project-specific local development impacts been addressed in the SEIA?
- Have development impacts been discussed with local communities?
- Does the client monitor and report agreed upon indicators to local communities at least annually?
- To what extent are anticipated development impacts being realized?
- Where relevant, has some type of external assurance been used (third party verification/ participatory monitoring)?

The rating could be assigned by the project's social development specialist, in cooperation with the project economist. As circumstances differ from project to project, professional judgment will be needed to assign the rating, based on relevant indicators such as those listed above. (Not all questions will be relevant in all projects.)

Reward staff and management for positive local development impact.
Portfolio performance and performance improvements in the area of development results and local development impacts should play a substantial role in the performance evaluation and performance rewards of managers and department directors.

Investment staff and specialists should be provided with incentives that reward work on complex projects that lead to strong local engagement processes and positive local development impact.

Abbreviations and Acronyms

BCS	broad community support
BTC	Baku Tbilisi Ceyhan pipeline
CAO	the Office of the Compliance/Advisor Ombudsman
CES	IFC's Environmental and Social Development Department
CMB	Celulosas de M'Bopicua project
COC	IFC's Oil, Gas, Mining and Chemicals Department
DOTS	Development Outcome Tracking System
ESRD	Environmental and Social Review Document
GRI	Global Reporting Initiative
ICMM	International Council on Mining and Metals
IEG	Independent Evaluation Group (IFC and MIGA)
IFC	International Finance Corporation
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NGO	nongovernmental organization
PS	Performance Standards
SEAT	Socio-Economic Assessment Toolbox
SEIA	Social and Environmental Impact Assessment
SPI	Summary of Proposed Investment
XPSR	Extended Project Supervision Report

Notes

[1] This observation is supported by an independent consultant report assessing the effectiveness of CAO interventions in our first five years of operations. The report is based on 16 in-depth case studies reflecting 60 complaints, drawing on interviews of project complainants and CAO staff, IFC and MIGA staff, the sponsors, and nongovernmental (NGO) representatives. It notes that: "in most projects where CAO became involved, there are clearly evident, complex underlying issues… [including] the distribution of project benefits, for example, between the project owners and people in the project area. CAO 2006. "Retrospective Analysis of Interventions, Trends, Outcomes and Effectiveness," p. 14. Posted on http://www.cao-ombudsman.org

[2] Detailed information about the project complaint can be found at http://www.cao-ombudsman.org

[3] For instance, the company could have established, early on, a participatory water monitoring program with the involvement of a cross-section of villagers.

[4] Detailed information about the project complaints can be found at http://www.cao-ombudsman.org

[5] Detailed information about the project complaints can be found at http://www.cao-ombudsman.org

[6] Gunningham, N., R. A. Kagan, and D. Thornton. 2004. "Social License and Environmental Protection: Why Businesses Go Beyond Compliance." Law and Social Inquiry 29: 307–42.

[7] http://www.globalreporting.org

[8] http://www.un.org/millenniumgoals

[9] http://www.hsecreport.bhpbilliton.com/2006/sustainability/about/mGoalsNavigator.asp

[10] "Sierra Leone Economic Impact Assessment." Available at: http://www.heinekeninternational.com/community.aspx

[11] "Economic Impact of Coca Cola in China." Available at: http://moorecms.graysail.com/moore/research/presentstudy/Coca-Cola/China/china.htm

[12] http://www.vodafone.com/start/responsibility/publications_faqs/case_studies/case_study__community.html

[13] The Principles are based on IFC's Social and Environmental Performance Standards. See http://www.equator-principles.com

[14] Other Performance Standards (PS) contain requirements that can be relevant for impacts on local communities, such as PS 2 for local workers; PS 4 regarding impacts on community health and safety, such as from migrant workers; PS 6 regarding impacts on local areas having biodiversity of significant social, economic, or cultural importance to local communities; PS 7 regarding impacts on indigenous peoples; and PS 8 on project impacts on cultural heritage.

[15] IFC Policy and Performance Standards on Social and Environmental Sustainability Policy, Performance Standard 1, para 22.

[16] IFC Policy and Performance Standards on Social and Environmental Sustainability Performance Standard 5, Economic Displacement, para 20.

[17] IFC Policy and Performance Standards on Social and Environmental Sustainability, para 20.

[18] IFC Policy and Performance Standards on Social and Environmental Sustainability, Guidance Note 1, para G54.

[19] Environmental and Social Review Procedure, July 31, 2007, Annex 3.5.1.

[20] Environmental and Social Review Procedure, July 31, 2007, Annex 3.5.1., p. 39, Analysis of Context.

[21] IFC Policy and Performance Standards on Social and Environmental Sustainability, para 26; MIGA Policy and Performance Standards on Social and Environmental Sustainability, para 27.

[22] MIGA Policy on Disclosure of Information, para 23.

[23] A representative sample of IFC's mature projects is evaluated this way each year during the Extended Project Supervision Report (XPSR) process.

[24] http://www.ifc.org/ifcext/about.nsf/Content/2007_Strategic_Directions_Paper

[25] http://www.miga.org/documents/IEG_MIGA_2007_Annual_Report.pdf

[26] http://www.ifc.org/ifcext/devresultsinvestments.nsf/Content/Stakeholders_Impacts

[27] IFC Policy on Social and Environmental Sustainability, para 26. Available at:
http://www.ifc.org/ifcext/enviro.nsf/Content/SustainabilityPolicy.
MIGA Policy on Social and Environmental Sustainability. Available at:
http://www.miga.org.documents/environ social review 021507.pdf

Acknowledgments

Principal author: Julia Gallu (Independent Consultant)

Contributing authors: Glen Armstrong (Sustainable Finance Limited), Anne Thomson (Oxford Policy Management)

Peer reviewers: Clive Armstrong (IFC), Sandeep Chachra (ActionAid), Aidan Davy (ICMM), David Hunter (American University), Roland Michelitsch (IFC), Patricia Miller (IFC), Alan Roe (Oxford Policy Management)

Editor: Nancy Morrison, Falls Church, VA

Design: Studio Grafik, Herndon, VA

CAO Washington, DC staff: Amar Inamdar, Meg Taylor

Photos (cover): Community enterprise in the northwest Indian Himalayas.

COMPLIANCE ADVISOR OMBUDSMAN

Compliance Advisor/Ombudsman
2121 Pennsylvania Avenue NW
Washington, DC 20433 USA
Telephone: (202) 458-1973
Facsimile: (202) 522-7400
e–mail: cao-compliance@ifc.org
www.cao-ombudsman.org

International Finance Corporation
World Bank Group

World Bank Group
Multilateral Investment
Guarantee Agency

MEMBERS OF THE WORLD BANK GROUP

This publication is printed on process-chlorine-free paper, 100% post-consumer waste fiber.
The paper was manufactured using non-polluting, wind-generated energy. Printed with soy-based inks.

2008