The Contribution of Private Investment to Sustainable Development: A Framework

Glen Armstrong
Senior Advisor: Sustainable Development
International Finance Corporation

Executive Summary

The International Finance Corporation is the largest provider of long term finance to the private sector in developing countries. It has for some years applied a set of minimum environmental and social standards to the projects in which it invests. In 2001, a cross disciplinary group within the Corporation was asked to assess ways in which IFC’s performance across all the dimensions of sustainable investment could be evaluated and improved. Amongst other things the group concluded that an important indicator, not then existing, should be the number of transactions that can demonstrate significant positive environmental, social or corporate governance impact. A framework was developed which seeks to better define these component parts (factors) of sustainable performance and enable us to better assess a given projects impacts. In addition it was concluded that a better understanding of the relationship between these factors and the business case for enhanced performance in these areas was essential, particularly as it is applied to emerging markets.

This paper provides an explanation of the framework that was developed, the outcome of research into the business case for the application of sustainability principles in emerging markets and IFC’s experience of working with the framework over the financial year July 2001 to June 2002.
Glen Armstrong can be contacted at
+44 (0)1743 761404
garmstrong@ifc.org
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Profitable private investments, where they do not rely on protection, generally contribute to economic development through the productive use of capital. In addition, they may contribute to environmental, social, or corporate governance improvements. Traditionally this contribution to these key components of sustainable development has been through the use of minimum environmental and social standards. The International Finance Corporation (IFC), as part of the World Bank Group has invested considerably in the development of such standards\(^1\). They have become an intrinsic part of project analysis and have contributed significantly to the understanding of environmental and social impacts and the processes through which the adverse impacts can be minimized. Needless to say there have been and will continue to be controversial projects where their effective application is contested or subject to interpretation. The number of organisations worldwide (including many financial institutions) who have adopted World Bank and IFC standards for their own use when investing into less developed countries (commonly in their application through environmental credit risk assessments) is considerable.

In early 2001, consistent with IFC’s commitment to sustainable development within its client countries, a cross disciplinary group within IFC was set up to examine ways in which IFC’s role in improving the environmental, social and governance performance of its clients and thereby its own contribution to sustainable development could be improved and measured. A number of important conclusions were drawn.

First of all that the minimum standards or ‘safeguards’ approach can be self limiting. Whilst such a performance baseline remains extremely important, in isolation it does not recognise or provide incentive for performance above these established norms.

Simply to ‘raise the bar’ in terms of the minimum standards to be applied was not a suitable response and in fact would be counter-productive. In some frontier markets, meeting IFC’s

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\(^1\) These are contained within a set of environmental and social “safeguard” policies, supplemented by the IFC/World Bank Pollution Prevention and Abatement Handbook (PPAH), which lay out detailed environmental standards by industry sector. These standards are applicable to all IFC projects and can be viewed in detail at [http://www.ifc.org/enviro/EnvSoc/index.html#policies](http://www.ifc.org/enviro/EnvSoc/index.html#policies).
minimum standards in these areas may be all that can realistically be achieved, and will in itself make a major contribution to the environmental and social sustainability of the project.

Also, that whilst much of IFC’s experience and leverage lies at the transaction level and we should focus a significant amount of our effort there, the understanding of the concept of ‘sustainability’ needed to be grounded in a number of definable component parts which could be communicated and understood by a broad base of professional disciplines engaged in the investment process both within IFC, our clients and other stakeholder groups. Last but not least it was abundantly clear that to establish market driven incentives for change we needed to develop a much clearer understanding of the relationship between the components of ‘sustainable development’ and the business case for companies operating in developing economies than was currently available, even though all our professional instincts and understanding led us to that conclusion. If we could demonstrate some clear business benefits associated with strong performance in these areas then the path ahead would be much smoother.

**Defining Environmental and Social Sustainability at the Transaction Level**

A framework has been developed which we hope will enable us to better assess a given project’s positive environmental, social or governance impacts. This is valuable in a number of ways. First of all it brings much needed clarity to our investment teams about the types of ‘added value’ we are seeking to achieve in partnership with our clients. Second we can use the framework to measure the number of transactions that demonstrate significant positive environmental, social or governance effects — an important indicator of our own corporate performance. This is extremely important because in the past this additionality has not necessarily been recognized nor given credit because of the absence of an analytical framework for issues and contributions which do not lend themselves as easily to analysis as do financial results and economic rates of return. We can also therefore link the framework to our internal systems (Corporate Scorecard, Career progression, etc.) to provide incentives for a more proactive approach to sustainable development.

The development of the framework has been very much viewed as a logical evolution of IFC’s role and this is extremely important. It builds on IFC’s experience in ensuring the financial and economic sustainability of its investments. Similarly, identifying and communicating the “public good” stemming from governance, environment, or social elements may also support IFC’s presence in transactions where it might otherwise be questionable.
Process

The framework was initially developed by a team of environmental, social and governance specialists from within IFC. It was then subjected to an external peer review process and a long period of internal consultation during 2001 and early 2002 before a final draft was developed in the spring of 2002.

Overview of the Framework

The purpose of the framework is to define more precisely what “added value” or “doing good” (that is, going beyond minimum “do no harm” requirements) means from an environmental, social, or governance perspective as a contribution to overall development impact and the sustainability of investment.

Defining “high impact”

“Public goods” stemming from environmental, social, and governance elements can occur in a number of different areas (referred to here as “factors”). The framework covers three broad areas, broken down into eight factors as follows:

- Management commitment and governance
  - Environmental management, social development commitment, and capacity
  - Corporate governance
  - Accountability and transparency

- Environment
  - Process eco-efficiency and environmental footprint
  - Environmental performance of goods and services
Socioeconomic development
- Local economic growth and partnerships
- Community development
- Health, safety, and welfare of the labor force

Whether we choose projects for their degree of environmental, social, or governance impact or for our ability to influence those dimensions of a project will depend on the specific circumstances of that project — unlike IFC’s minimum standards, which firms must attain for us to invest, we will generally seek higher impact in those areas when it makes business sense for our clients.

Use of the Framework

We expect the framework to be used in a number of ways. As a tool, it can provide:

- An objective, comparable, and credible basis for assessing the value we add to long-run sustainable development
- Guidance for investment teams on what forms this added value might take in specific projects
- Guidance for investment teams on how to strengthen a project’s contribution to long-run sustainable development

From a performance perspective, the framework will provide:

- A snapshot of the total contribution of IFC projects to long-run sustainable development
- A way to identify the number of interventions with significant positive impact
- An indication of the strength of IFC’s non-financial role in individual projects

The Mechanics of the Framework
Clearly — high positive impact in environmental, social, and corporate governance areas is more than a simple yes-or-no issue. Each of the factors has therefore been differentiated into four performance levels:

- Level 1 shows compliance with IFC minimum standards where they exist.
- Level 2 indicates creation of local or global environmental, social, or corporate governance value, either by reducing resource use, emissions, or waste; by broadening the beneficiaries of economic activity; or by positively affecting the views of potential investors.
- Level 3 signifies that a project’s positive impact influences the behavior of other firms, creating a farther-reaching demonstration impact.
- Level 4 describes a leadership position in which a project or firm has wide influence in driving best practices.

Each bullet under each level illustrates a positive impact appropriate to the given level and offers an example of some of the ways the private sector already delivers these “public goods” through its investments.

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Developmental Benefits</th>
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<tbody>
<tr>
<td>Level 1: <strong>Complies with IFC and national minimum standards</strong></td>
<td>• The economic activity conducted by the project or company is in accordance with accepted national and international (IFC) standards for mitigating potential environmental or social harm stemming from the activity.</td>
</tr>
</tbody>
</table>
| Level 2: **Shows added environmental, social, or corporate governance value** | • Handling of environmental/social issues materially exceeds minimum standards  
• In so doing, the project or company creates local or global benefits through reduced waste, emissions, or use of natural resources of its economic activity or helps spread the benefits accruing from its economic activity to the local community or to groups that often fail to benefit from such activity.  
• Corporate governance practices are good enough to affect positively views of investors about investing in the country. |
| Level 3: **Indicates high-performance** | • Handling of environmental and social issues materially exceeds WBG minimum standards. Formalization of practices or other steps enable good practices on environmental, social and corporate governance issues to leverage change broadly within a region, a sector, or a supply chain.  
• Economic activity beyond the firm is influenced in the direction of improved resource intensity and inclusion of new beneficiaries. |
Corporate governance attributes of the project are sufficiently advanced so that a demonstration effect is possible.

<table>
<thead>
<tr>
<th>Level 4: Recognizes leadership</th>
<th>Company is actively engaged on many fronts in the dissemination of best practice.</th>
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<td></td>
<td>Economic activity well beyond the firm is influenced in the direction of improved resource intensity and inclusion of new beneficiaries.</td>
</tr>
<tr>
<td></td>
<td>Firm is seen as a global governance leader, with wide influence.</td>
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During this pilot year of implementation, the initial assessment that a project meets one or more of the ‘added value’ criteria in this framework on its own merits or whether IFC’s intervention added value beyond that contributed by the project is made by the investment team. This judgment is cross checked by departmental strategists and IFC’s central operational strategy group (environmental and social professionals are integral members of the investment teams). It is our intention in future to disclose the results of this analysis within the annual report. A baseline analysis of our commitments in fiscal year 2002 indicates that 19% of our projects have high impact (i.e., score level 2 in at least one of the sustainability factors) in the areas of environmental, social, and corporate governance performance. Further detail is given within the sustainability review in IFC’s annual report for fiscal 2002. The full content of the sustainability framework is included as Annex 1.

**The Business Case for Sustainable Development**

The importance of establishing a better understanding of the relationship between these sustainability factors and enhanced business performance was an early conclusion of our analysis. Whilst there has been evidence of an increasing convergence between strong performance in environmental, social, and governance factors and sound business management it is very important in our work with developing country businesses, to provide substance to this cause and effect. It is also important to be clear and specific about the way that these factors relate to key business drivers. In 2001 IFC engaged with the consultancy SustainAbility and the Instituto Ethos in Brazil to examine the business case. A substantial database of IFC and non-IFC examples of the relationship between strong performance in these areas and drivers of business value was developed. Over 240 real case examples in over 60 countries were examined. The IFC

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derived sustainability ‘factors’ were slightly adjusted for ease of analysis and assessed against 6 business drivers — namely:

- Cost saving and productivity gains
- Revenue growth and market access
- Access to capital
- Risk management and license to operate
- Human capital
- Brand value and reputation

The report produced identifies that the business case varies by region and company size and that the correlation with the sustainability factors is much stronger in some areas than others (as one would expect) but there are clearly many areas where emerging market businesses are gleaning significant business advantage from strong environmental, social or governance performance.
This evidence of an emerging convergence is just the start of a long discussion and we hope that the work will be used by others to further develop this important correlation. It has nonetheless confirmed IFC’s belief that companies that are well governed, socially responsible, and environmentally progressive are best equipped to be successful and provide long-term shareholder value. These will be the sustainable businesses of the future.

Where Next?

The Sustainability Framework developed by IFC is far from perfect. However it is a pioneering tool which is enabling us to begin assessing beyond compliance environmental, social and corporate governance effects. We are now gaining experience in its application. We recognize though that thinking in these areas moves rapidly forward, that the prominence and perceived importance of certain issues is dynamic and basically things change. It is therefore our intention to review the framework periodically. We welcome constructive suggestions relating to its future development, content and application.

Acknowledgements

The development of this framework and its application within IFC owes much to many individuals, too many to mention here. Similarly the work to better develop the business case for Sustainable Investment was a substantial collaborative effort between SustainAbility, the Ethos institute and IFC.

In particular the work of Deborah Feigenbaum and Harry Pastuszek in the development of the IFC business case database was extremely important and additionally in Harry’s case the coordination on the numerous responses to early drafts of the framework. The work of environment and social development colleagues Mark Eckstein, Kerry Connor, John Butler, Kathryn McPhail, Shawn Miller and Rachel Kyte in the early analytical work on the framework and in later reviews was outstanding as was the contribution of Mike Lubrano on governance. Review inputs by Karin Strydom, Sabine Durier, Monika Weber-Fahr, Gavin Murray and other IFC investment, economic and environmental staff were extremely important. The support, input, guidance and tenacity to ensure that this work was integrated into IFC’s internal incentive structure (the Corporate scorecard) of Bernie Sheahan was crucial.

In addition, external peer reviewers gave freely of their views and perspectives and IFC would, in particular, like to thank Barbara Krumsiek and Julie Gorte of Calvert, Jason Clay of WWF
International, Frances Seymour of the World Resources Institute, Miguel Angel Valenzuela of GIRSA, Aiko Bode of Gerling, Bettina Furrer of UBS, Polly Courtice of the Cambridge Programme for Industry, Ajay Narayanan of IDFC, Cholpon Dyikanova of the Community Business Forum, Kyrgyzstan and Dan Esty of Yale. The content of the framework remains of course the responsibility of the author and IFC.

Work on the business case for sustainability in emerging markets referenced in the paper was a joint effort of IFC with SustainAbility and the Ethos institute, Brazil. The inputs, skills and professionalism of Kavita Prakash-Mani, Jodi Thorpe and Peter Zollinger of SustainAbility, Deborah Feigenbaum, Stefanie Held and Bernie Sheahan of IFC and Nelmara Arbex and Valdemar de Oliveira Neto of Ethos in bringing together a ground breaking piece of work are worthy of recognition here.

Last but certainly not least the skills of Maria Gallegos in developing presentations of this work over the last 2 years have been considerable.
Annex 1

The contribution of Private Sector Investment to Sustainable Development in Developing Countries: A Framework for the Analysis of Environmental, Social and Corporate Governance Performance.

1. Management Commitment and Governance

1.1 Environmental management, commitment to social development, and capacity

A company with sound environmental and social management is likely to minimize the potential negative impacts on the environment and local communities in the normal conduct of its business. Good management will find ways to constructively address situations not explicitly foreseen in regulations or policies. It will also find ways to reduce the resource intensity of economic activity and to pass on its benefits more widely. It is also likely to reduce risks, improve staff and customer loyalty, and enhance brand value and reputation for the firm.

**Level 1** — Economic activity conducted by the project or company conforms to accepted national and international (IFC) standards, as evidenced by the following:

- The investment project meets all IFC’s environmental and social policy and guideline requirements or has identified and agreed to an action plan to achieve compliance in a specific time frame.

**Level 2** — Economic activity conducted by the project or company creates local or global benefits in its use of natural resources and in spreading the benefits accruing to the local community, as evidenced by at least one of the following:

- The company has developed an environmental (and, possibly, a social development) management system and is working toward international certification for environmental performance under a widely accepted and credible scheme (ISO 14000, FSC, MSC, or Responsible Care, for example) and has a clear action plan. An environmental procedures manual has been produced and is used by appropriate staff. A system of regularly auditing and tracking the environmental performance of the facility in accordance with an accepted standard (such as Schemas) is in place.

- The company has developed a statement of business principles that incorporates its approach to corporate values, ethics, and sound business practices and integrates internationally recognized ethical behavior. The statement recognizes the significance of international standards and initiatives such as the U.N. Global Compact, OECD Anti-bribery Convention, and U.N. Declaration on Human Rights, among others, and integrates these requirements into its own ethical principles. The company’s articulated
business principles, values, and ethics are readily available to all employees. Commitment to environmental management and social development is clearly stated in the company’s structure and operations. A board member has formal responsibility for oversight and board reporting. A senior manager has day-to-day responsibility for implementing and coordinating management efforts, and a fully trained specialist or specialists are available. Environmental performance is routinely reported to the board and to the work force, and environmental budgets can be defined.

- The company adopts IFC’s minimum environmental and social requirements as a corporate commitment beyond the scope of IFC’s own investment or within joint-venture activities, thereby improving and leveraging standards beyond the boundaries of IFC’s investment.

**Level 3** — *Economic activity beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least one of the elements at Level 2:*

- The company screens and monitors contractors, suppliers, and possibly subcontractors to ensure that the supply chain is in line with its environmental and social management approaches and its business principles. This effort includes assistance with capacity building within supplier organizations to improve competitive advantage for suppliers. The company further demonstrates its commitment through external partnering to strengthen business principles, values, and ethics.
- The company fully integrates its monitoring of environmental, social, and business performance into internal systems, including reporting. The company has a solution-driven accountability mechanism in place, allowing employees and local communities to raise issues with management.
- All staff receive specific training in environmental management, social development, and business principles as part of career development. Responsibility for environmental management is incorporated as appropriate into the job descriptions of all staff, and environmental performance figures in personal performance targets and bonus schemes.

**Level 4** — *Economic activity well beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by the following and all the elements at Level 3:*

- The company’s advanced and coherent approaches to environmental and social management and business principles and values set an industry standard and play a leadership role in influencing thinking and behavior within the peer group. These achievements are indicated by the company’s brand recognition, leadership of industry standards, partnering with civil society and other stakeholder groups, and reporting standards. Brand recognition and leadership positioning have likely led to new business opportunities and markets.
1.2 Corporate governance

The quality of corporate governance has become widely recognized as an important issue in developing countries. Weak corporate governance discourages foreign investment in specific companies, reduces capital flows to developing economies in general, and can suppress information on a company’s use of capital. Improvements to the investment climate, proper corporate governance practices, and support for firms that follow good practices contribute to development. Research has also demonstrated a correlation between a company’s approach to corporate governance and its risk profile, brand value, reputation, and ability to attract human and intellectual capital. The framework seeks to recognize the differences in governance processes for family-owned and listed companies.

Level 1 — Family Businesses: With the company’s understanding that the primary need is to professionalize, economic activity conducted by the project or company conforms to acceptable corporate governance practices, as evidenced by the following:

- The company has the basic formalities of corporate governance in place, including a charter providing for a board of directors, a board constitution, and clearly identified shareholdings; a mechanism for informing shareholders of company strategies and policies; and an annual shareholders’ meeting.
- Adequate accounting and auditing systems are in place, including an internal accounting and control system reviewed periodically by independent auditors; quarterly financial reports are prepared by internal auditors and reviewed and

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These are not intended to reflect IFC’s minimum corporate governance standards but are structured for general consistency with other parts of the framework and the corporate governance scorecard.
approved by the board, and annual financial statements are audited by independent auditors and are approved at a shareholders’ meeting.

- A board member or high-level company executive is explicitly charged with responsibility for improving corporate governance practices.

**Level 1 — Listed Businesses:** Economic activity conducted by the project or company is in accordance with acceptable corporate governance practices, as evidenced by the following:

- The company has a written corporate governance code.
- The board has a sufficient number of independent nonexecutive directors.
- The board has an audit committee, composed of independent directors, that chooses the external auditor, receives the reports directly from that auditor, oversees the work of the internal auditor, and ensures that findings are properly acted on.
- All shareholders are given regular disclosure reports, issued on time, with accuracy and adequacy in line with international disclosure standards.
- The company treats all shareholders equally for voting rights, subscription rights, and transference rights.
- Minority shareholders are allowed to participate and vote at shareholder meetings.
- An internationally recognized accounting and auditing system is in place, consistent with the International Standards on Auditing (ISA).
- The company publishes meaningful quarterly reports, containing segment reporting as well as results per share, consistent with ISA form.
- All investors and financial analysts are treated equally regarding information dissemination (fair disclosure).

**Level 2 — Family Businesses:** In the first concrete steps toward best practices, economic activity conducted by the project or company demonstrates good corporate governance practices, as evidenced by at least one of the following:

- Written policies addressing key elements of governance exist, including issues such as succession planning, human resources, family-member employment, and non-family-member shareholding.
- The formalities of corporate governance are strictly observed, including a regular calendar of corporate events, board meetings held on a regular schedule, agendas prepared in advance, minutes prepared and approved, and shareholders provided with all material information and a detailed agenda in advance of shareholders’ meetings.

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5 Ibid.
• Nonfamily members (probably company executives or former executives) are appointed to the board, and a core competency (skill mix) review of the board is conducted.
• An advisory board of independent professionals is established and consulted on a regular schedule.
• Accounting and auditing are performed in accordance with the highest national standards, and a recognized international firm performs an audit.

Level 2 — Listed Businesses: With extra steps taken to ensure good corporate governance, economic activity conducted by the project or company demonstrates good corporate governance practices, as evidenced by at least one of the following:

• The corporate governance code or manual is easily available to the regulators and the general public.
• There is a compliance officer with the responsibility for ensuring compliance with laws and regulations.
• The board has committees or subcommittees (compliance, nomination, compensation, and risk management, for example) that ensure the proper and dutiful performance of key board functions.
• There are provisions to protect minority shareholders during changes of control, and minority shareholders are able to pool their votes.
• The company’s annual report contains information on significant cross shareholdings (5 percent or more), and conflicts of interest are fully revealed through a clear and well-established mechanism approved by the regulatory authorities where required.

Level 3 — Family Businesses: With implementation of best practices, economic activity conducted by the project or company demonstrates sufficiently impressive corporate governance practices, as evidenced by all of the following and all of the elements of Level 2, that it should have a demonstration impact locally and positively influence financial investors:

• The board composition (competencies and skill mix) is adequate to oversight duties.
• An audit committee of nonexecutive directors is established.
• Independent members are appointed to the board (perhaps “graduated” from the advisory board).
• Accounting, auditing, and internal control systems meet international standards.
• A family council is established, if the number of family-member shareholders is large.

Level 3 — Listed Businesses: *In a major contribution to improving corporate governance nationally, economic activity conducted by the project or company demonstrates sufficiently impressive corporate governance practices, as evidenced by the following and all of the elements of Level 2, that it should have a demonstration impact locally and positively influence financial investors:*

• Corporate financial and governance information is readily and regularly available and put on the Internet if locally applicable.

Level 4 — Family Businesses: *As the company takes a leadership role, economic activity well beyond the project or company is likely to be influenced in the direction of improved corporate governance, and external financial investors are likely to be positively influenced, because of the firm’s leadership position in corporate governance as evidenced by one of the following and the requirements of Level 3:*

• Applicable corporate governance, accounting, auditing, and internal controls are operational, and communication with shareholders is equivalent to that at best-practice public companies (that is, little would need to be done to qualify to make a public offering), including an audit committee composed of independent directors and a nominating committee.
• The company fully complies with all applicable provisions of the national corporate governance code, some elements of which may be applicable only to public companies.

Level 4 — Listed Businesses: *Economic activity well beyond the project or company is likely to be influenced in the direction of improved corporate governance, and external financial investors are likely to be positively influenced because of the firm’s leadership position in corporate governance as evidenced by the following and the requirements of Level 3:*

• All Level 2 and 3 features exist, and the company is publicly recognized as a global leader in corporate governance.
1.2 Accountability and transparency

Transparency of information can reduce the potentially negative effects of economic activity, especially on local communities. It is also an important tool for helping local communities and for enabling those communities to benefit from potential opportunities arising from new investment activity. Transparency can also facilitate replication of good environmental, social, and corporate governance practices and contribute to more efficient decision making by consumers, investors, regulators, and policy makers. Greater transparency encourages the engagement of the local community and increases corporate accountability for decisions.

Transparency of a company’s environmental, social, and governance information reveals the extent to which the company measures and reports its performance on these issues accurately. Research has demonstrated a correlation between a company’s approach to transparency and accountability and its operational efficiency, ability to attract human and intellectual capital, and enhancements in shareholder value.

Level 1 — Economic activity conducted by the project or company conforms to accepted national and international (IFC) standards, as evidenced by the following:

- The company fully complies with IFC’s requirements on public consultation, information disclosure, and reporting.

Level 2 — Economic activity conducted by the project or company creates local or global benefits in its use of natural resources and in spreading the benefits accruing to the local community, as evidenced by at least one of the following:

- The company reports information on its environmental performance to the public. Relevant performance information is accessible in local languages and is disseminated through culturally appropriate media.
- Information on the company’s environmental performance and social development programs is actively discussed with affected people inside and outside the company, and feedback is welcomed and acted upon. Participation of civil society and wider stakeholders through dialogue, site visits, and the like is encouraged. This interactive process is used to develop the key environmental and social performance indicators for the business’s operations and is appropriately incorporated into its management systems.
Level 3 — *Economic activity beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and both elements at Level 2:*

- The company’s business principles state a preference for openness and transparency about its activities, where commercial confidentiality is not compromised. The company collates a broad base of information on its environmental, social, and governance performance and reports it to the public. The information includes by-country data, and the reports are externally verified for accuracy and completed to an international standard such as the Global Reporting Initiative or equivalent. Company financial reserves for environmental remediation are disclosed. Reports are made widely available and proactively disseminated to a range of stakeholders.
- The company collates and makes available information on the impacts of its operations within the supply chain and publicizes the standards expected of its suppliers. It also discloses its level of investment and distribution of revenues by country.
- The company benchmarks its performance against others within its sector and actively pursues improvements through industry associations and promotion of regulatory enhancement, or the investment or project (rather than the company) leverages improvement of environmental, social, or governance performance standards within industry associations at a national level through its demonstration effect.

Level 4 — *Economic activity well beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least two of the elements at Level 3:*

- Financial, environmental, and social reporting is integrated into a single framework that addresses the interrelationships of performance in each area. Reports incorporate stakeholder feedback on performance in a transparent way and are readily accessible through electronic and other means, including in local languages, and are broadly disseminated.
- The leadership actions demonstrated at Level 3 in the transparency of environmental, social, governance, and revenue distribution information are contributing to changing approaches within the sector more broadly or throughout the country of operations. The project has set industry, regional, or local standards of performance that others are emulating (or required to emulate), or the investment has leveraged significant improvements in the capacity of government to address environmental and social risks
and opportunities, for example, in the management of protected areas, community consultation processes, approaches to land rights, and the like.

- Internal management processes are actively informed on international and sectoral trends on sustainability issues through appropriate means (that is, through an external and independent sustainability advisory board with wide stakeholder involvement). Participatory involvement of civil society and the work force in oversight of the company’s performance on environmental and social development issues has become the norm.

2. Environment

2.1 Eco-efficiency and environmental footprint

More efficient use of resources is one of the most important elements in improving the long-term sustainability of economic growth. Supporting increased economic activity that is less energy intensive, and generally less raw-material intensive, makes an important contribution to sustainable development. Research has clearly demonstrated a correlation between a company’s eco-efficiency and cost reduction and its shareholder value, operational efficiency, ability to access capital, and overall risk profile. At entry level, the project may have identified ad hoc opportunities for enhanced efficiency of resource use. At higher levels of performance, the company proactively seeks to improve its performance and has adopted strategic measures and formulated policy in such areas as resource use, emissions, and byproduct recycling.

Level 1 — *Economic activity conducted by the project or company conforms to accepted national and international (IFC) standards, as evidenced by the following:*

- The company meets all IFC’s environmental policy and guideline requirements or has identified and agreed on an action plan to achieve compliance over a specified time frame; the company complies with national standards and international conventions relating to biodiversity and management of natural resources (as relevant) if ratified. The compliance process may have resulted in the
recognition of opportunities for cleaner production or eco-efficiency, and the company has taken some measures to save costs. These improvements have tended to be reactive and ad hoc rather than part of a strategy to seek out cleaner production or eco-efficiency; it is unlikely that there is specifically trained environmental staff. End-of-pipe pollution control is the norm.

**Level 2** — *Economic activity conducted by the project or company creates local or global benefits in its use of natural resources and in spreading the benefits accruing to the local community, as evidenced by at least one of the following:*

- The company has a clear and demonstrable commitment to cleaner production rather than end-of-pipe pollution control and proactively seeks to improve its performance in such areas as resource use, emissions reduction, byproduct recycling, and biodiversity preservation.

- The investment ensures that, where appropriate, adequate financial resources or insurance instruments are in place to meet any required remediation or long-term restoration of the site.

- The investment brings direct environmental or public health gains or displaces existing polluting or environmentally damaging activities with significantly less damaging processes.

- The investment directly supports significant improvements in technology or eco-efficient processes and the transfer of know-how to local industry. Such transfers help locals meet current international good practice and result in significant improvements in environmental performance.

**Level 3** — *Economic activity beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least two elements at Level 2:*

- The company has a demonstrable understanding of its environmental footprint and has adopted life-cycle analysis, total cost accounting, or similar cost or environmental management systems. It actively monitors and manages reduction strategies for material
intensity, including natural resource use, energy use, and the use and dispersion of toxic substances, and proactively manages environmental risk and opportunity.

- The company accesses new markets as a result of its positioning on cleaner production or eco-efficiency, and its brand is thereby recognized as a leader in environmental issues within its main country of operations.

- The company actively demonstrates or replicates environmental opportunities within a sector or with others. For multinational companies, this might mean partnering with local companies and sharing information on best practice and the like and participating in government-sponsored, industry, or NGO programs designed to mitigate environmental damage or improve environmental performance. For national companies, this could mean working with wider stakeholder groups to promote sustainable natural resource management in areas such as water resources or biodiversity.

- The company works with suppliers to improve environmental performance through the product chain and ensures common standards of environmental performance, thereby facilitating the transfer of knowledge, capacity, and technology in the process.

**Level 4** — Economic activity well beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least two elements at Level 3:

- The company defines best practice in relation to cleaner production or eco-efficiency and reduced environmental footprint for an industry. Much of this recognition is based on demonstrable and credible efforts to proactively reduce environmental impacts in operations, including those on natural resources. The company works in research and development or technical groups to advance environmental performance and standards of the industry and, as feasible, with other industry partners or competitors and shares information on performance and cleaner production or eco-efficiency opportunities.

- The company successfully uses its commitment to environmental performance as a key part of brand equity, and major stakeholder groups as credible accept this positioning. The company tracks emerging legislation, regulations, and market drivers (such as consumer demand, insurance liability, and stock market disclosure requirements) and proactively positions itself to respond to these drivers.

### 2.2 Environmental performance of products and services

A company’s own processes often constitute only a fraction of how an end product is created. A firm’s suppliers can heavily influence the environmental or social effects deriving from creating a product and bringing it to end users. Product stewardship, or embedding environmental principles in its products or services, can thus make an important developmental contribution by
helping reduce the overall impact of a product. Major environmental advances in natural resource conservation are commonly associated with improved product design. Research has demonstrated a correlation between a company’s approach to environmentally responsible products and services and its attractiveness to customers and its ability to innovate. At higher levels of performance, a firm uses life-cycle analysis to develop or introduce superior products and reduce the footprint of its product or services portfolio as part of its overall management, including supply-chain management and requirements.

**Level 1** — *Economic activity conducted by the project or company conforms to accepted national and international (IFC) standards, as evidenced by the following:*

- The company’s products meet all national requirements for environmental permits, regulations, reporting requirements, requirements for consumer safety, and other applicable regulations.

**Level 2** — *Economic activity conducted by the project or company creates local or global benefits in its use of natural resources and in spreading the benefits accruing to the local community, as evidenced by one of the following:*

- There is clear accountability of senior managers for integration of environmental factors into the design and delivery of products or services. Management understands the relevance and significance of international product design standards or labels to market access.
- Key staff with customer or client and purchasing responsibilities are trained and knowledgeable in the relevance of environmental factors to products or services.
- Key suppliers are involved in review of product or service impacts, and specific requirements are integrated into supplier contracts.

**Level 3** — *Economic activity beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and by at least two elements at Level 2:*

- The company promotes or manufactures products with enhanced or superior environmental performance.
- The company assesses product or service impacts and opportunities on a whole life-cycle basis. Feedback is fully integrated into product and service offerings. Assessments incorporate full integration of external costs.
- The company has achieved industry or sector-level certification, through external review, to sustainable production standards such as Energy Star, Blue Angel, Green Globe, or a similar organization. Or where no industry or sector certification exists, the company is taking a leading role in the development of such third-party certification standards.
Level 4 — Economic activity well beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least two elements at Level 3:

- The company’s products are significantly more environmentally friendly, either through lower impact or positive contribution, than those of competitors, and this can be demonstrated by objective measures.
- The company extends its own exemplary product standards or services to its upstream vendors and downstream affiliates, through verifiable codes of conduct.

3. Socioeconomic Development

3.1 Local economic growth and partnerships

Sharing the benefits of economic growth has become a major issue in development. The antiglobalization movement, in particular, has questioned the links between large-scale economic activity and smaller businesses or the poor. Features of an investment project that support increased economic activity in the local area will contribute to sustainable growth. This factor addresses the importance of company commitment to the capture of benefits within the local economy, including capacity building, technology transfer, training, financing support, and support programs for small and medium enterprises. Research indicates a correlation between a company’s approach to local socioeconomic development and its ability to attract human and intellectual capital and its brand value and reputation. At entry level, procurement processes and contracting procedures can help source products and services locally, while at higher levels the company will pursue measures in revenue distribution and will have formalized its approach through policy.

Level 1 — Economic activity conducted by the project or company conforms to accepted national and international (IFC) standards, as evidenced by the following:

- The company commissions social impact assessments (where stipulated by IFC requirements) to assess the effects of its operations that include local economic impacts.
- Full compensation at replacement level (in accordance with IFC policy) is demonstrably provided for loss of access to land or other assets, including community assets. Compensation packages are delivered as planned.
Level 2 — Economic activity conducted by the project or company creates local or global benefits in its use of natural resources and in spreading the benefits accruing to the local community, as evidenced by one of the following:

- The company commissions social development assessments that focus on improving livelihoods and maximizing the benefits from its activities to the local economy. Such benefits would include contribution to gross local product and employment and diversification of the local economy. Potentially damaging impacts on other localities are also assessed.
- The company’s investment in physical infrastructure is designed to support local economic development.
- The company provides training and shares standards so that local or regional suppliers, distributors, or retailers can meet the company’s quality standards and build local capacity to generate wealth. The company maximizes outsourcing of noncore activities and service requirements to local or regional producers and service suppliers.
- The investment leads to new partnership approaches among the private sector, civil society, and national or regional governments in maximizing local improvements in livelihoods.

Level 3 — Economic activity beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least three elements at Level 2:

- The company has clearly articulated policy, strategy, and benchmarks for success in supporting local economic growth and enterprise. The company has systems and processes in place to track implementation and performance with demonstrable indicators of success. Management and planning expertise is regularly shared with local government officials, communities, and NGO groups to improve their skills in project identification and implementation and to strengthen their capacity to use revenues for development.
- The investment leads to specific local programs for the support of small and medium enterprises, which maximize local economic and social value added. These efforts include provision of technical assistance to build the capacity of local enterprises to reach international standards and to help local firms innovate (for instance, to take advantage of e-commerce opportunities); these programs have specific components targeted at marginalized or underrepresented groups including provisions for microfinancing support to existing and start-up enterprises.
Level 4 — Economic activity well beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least one element at Level 3:

- The company actively shares its experience with promoting local growth through global or sectoral sustainability principles and standards (the chemical industry’s Responsible Care and the mining industry’s ICMM principles, for example).
- The company leads or participates in a broader public-private policy dialogue relating to revenue management and improvement of the legal framework for revenue sharing that results in substantive change at the national level.

3.2 Community development

Local community participation in economic activity is another avenue for broadening the distribution of the benefits of growth and for strengthening its sustainability. The participation of vulnerable, marginalized, or indigenous groups in particular can help lessen the inequalities that weaken an economy and can allow those groups to experience the benefits of economic activity more fully. This factor addresses the extent to which the company is committed to constructive, sustainable, and tailored community development. Research has indicated a correlation between a company’s approach to community development and its brand value, reputation, and ability to attract human and intellectual capital.

Level 1 — Economic activity conducted by the project or company conforms to accepted national and international (IFC) standards, as evidenced by the following:

- The project sponsor meets all IFC minimum standards for public consultation. This process will be characterized by one or more of the following:
  - The company may have provided support for such ad hoc projects as charity or traditional philanthropy.
  - Staff may have assumed ad hoc community development functions, but no group has been given formal assignment of responsibilities or resources.
  - Consultation and dialogue with communities take place but are sporadic and have not been formalized.
  - Some social baseline data exist, but no attempt to develop complete social baseline information with professional social specialists has been made.

Level 2 — Economic activity conducted by the project or company creates local or global benefits in its use of natural
resources and in spreading the benefits accruing to the local community, as evidenced by one of the following:

- The company broadens its definition of stakeholders and expands its definition of impact area beyond the most proximate and directly affected groups. Vulnerable groups (including people at risk of or living with HIV/AIDS) receive some attention as part of the overall program. The company devotes staff time to community development activities and is moving from a project-by-project basis toward a strategy or program for community development.
- The company formalizes community consultation and social communication mechanisms, by naming a community liaison officer, clarifying the grievance process, or creating appropriate channels for regular communication of relevant project information, for example. The company uses these channels to harness greater community participation in identification of community development projects. (Projects at this level tend to be basic needs projects rather than more formal capacity-building and training programs.)
- The company uses external social specialists or development NGOs for data gathering, project monitoring, and project execution.
- The company work force programs in preventive and occupational health care — particularly in areas such as HIV/AIDS prevention, care, and management — are expanded into the broader community. The company promotes the implementation of HIV/AIDS prevention, care, and treatment in the local community and makes its expertise available; it encourages the involvement of the private sector and the development of public-private partnerships.

Level 3 — Economic activity beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and all of the elements at Level 2:

- The company has formalized all community development activities under the umbrella of a program with increasing support and involvement of senior management. The company’s community development efforts are administered and monitored by fully qualified community development or health care specialists. The program is increasingly managed with the assistance of specialized partners like foundations or NGOs. The program definition of the stakeholder-beneficiary-community goes well beyond the traditional project impact area. It also has some specific focus on special needs regarding vulnerable or marginalized groups (indigenous people, single family heads, or women). This includes their participation in the work force.
- Company skills in areas such as financial management, organizational management, and training are made available to the community, and community development work focuses
on capacity building and institutional development rather than mainly on engineering and basic needs projects.

- Community development projects and programs funded all or in part by the company are commonly implemented by other civil society groups such as NGOs, educational and research groups, or local government. Benefits are agreed on among all stakeholders, and programs are jointly implemented.

**Level 4 — Economic activity well beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and all of the elements at Level 3:**

- Management of the community development program is devolved from the company, and ownership and responsibility are vested in capable civil society groups, foundations, or special-function agencies. Where trusts and endowments are established to fund the programs, they are managed in a transparent and participatory fashion. Board membership moves from direct control by company representatives to majority control by individuals drawn from local civil society. Senior management retains some oversight of programs. The company retains responsibility for activities linked to direct social and environmental impact mitigation.

- The investment has established a sustainable source of funding for the program that will allow for multiyear programs to be developed and funded. The funding may involve cofinancing of projects with other development agencies, foundations, and the private sector and include noncompany sources of funding for the entity administering community development programs or straight cofinancing of specific projects.

- The company’s approach to participatory consultation, project planning, monitoring, training, capacity building, institutional strengthening, and partnerships leads or has led to a demonstrable increase in civil society capacity to interact effectively and constructively with the private sector on community development issues. For example, this might lead to the development of community-based organizations for the first time within a particular country or to improved interactions between the government and civil society, where these were previously rare.

- Self-sustaining businesses with the skills and financial resources to survive without the company’s patronage are created, and training is provided in skills that will be useful whether or not the company remains.
3.3 The health, safety, and welfare of the labor force

Perhaps the strongest effect that private investment can have is the creation of jobs. Employment opportunities offering a safe, high-quality work environment, technical training, education, or medical care (including HIV/AIDS activities) make important contributions to reducing poverty and improving the quality of people’s lives. This factor addresses the extent to which a company is committed to the needs and development of its work force. Research has demonstrated a correlation between a company’s approach to its workers’ health, safety, and welfare and its revenue generation, operational efficiency, ability to attract human and intellectual capital, and shareholder value.

Level 1 — Economic activity conducted by the project or company conforms to accepted national and international (IFC) standards, as evidenced by the following:

- The company complies with local laws and regulations and international conventions (where these have been ratified by the host country) on health, safety, and labor practices.
- The company complies with IFC’s child and forced labor policy and health and safety guidelines.
- Job-specific training is provided.

Level 2 — Economic activity conducted by the project or company creates local or global benefits in its use of natural resources and in spreading the benefits accruing to the local community, as evidenced by at least one of the following:

- The company complies with the conventions of the International Labor Organization (ILO) even though these have not been ratified or enforced by the host country. Freedom of association and collective negotiation are demonstrably accepted with clear feedback mechanisms to management at an individual or collective level.
- The company pays somewhat higher wages than the local average, and the company provides basic benefits such as staff health (including HIV/AIDS prevention and care) and pension plans. Regulation working hours are respected, and overtime is paid. Negotiated retrenchment benefits, like compensation and retraining, exceeding national requirements, are in place.
- A specific health and safety plan in accord with international good-practice standards is in place, and training consistent with that plan is available to individuals. Beyond specific workplace hazards, the plan includes more generic health issues and provides for
monitoring of both chronic and acute pathologies within the work force. The plan ensures that all accidents are investigated, corrective actions are implemented, and reports are made to senior management.

- The company has a well-communicated STD and HIV/AIDS education and prevention program and meets the ILO code of practice on HIV/AIDS and the UNAIDS guidelines. This includes the availability of condoms in a nonstigmatizing way inside and outside the workplace and access to treatment of opportunistic infections.
- All supplier contracts specify compliance with local laws and regulations and with IFC labor policy and health and safety guidelines.

**Level 3** — *Economic activity beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least three elements at Level 2:*

- Hiring practices specifically attempt to include vulnerable people in the work force, and success is demonstrable to a significant degree. Specific training in both job skills and life skills is provided before recruitment, skills that maximize the potential of employees to retain gainful employment.
- The company proactively engages the work force in discussion on a broad range of issues that affect their health and sets in place mechanisms to support that process. Health and safety (and environmental) performance is reflected in staff performance goals, and these evaluations are reflected in pay rises and promotion opportunities.
- A human resources policy is in place covering all aspects of labor force health, safety, and welfare and requiring equal opportunity hiring and promotion practices, including no bias regarding HIV. The policy institutionalizes these benefits to the labor force and covers other basic issues such as disciplinary processes. An independent internal human resources group with a direct reporting line to senior management monitors and reports on this policy.
- Training is widely provided for non-job-specific skills such as literacy, computer skills, language, and allied technical skills commonly on a shared-cost basis, which demonstrably improve the individual’s prospects for promotion or alternative higher-value employment.
- The health plan, pension, and other benefits like day care and sports for staff are extended to other family members. These benefits are also made more available in the broader community, sometimes in partnership with civil society groups. Voluntary counseling and testing for HIV are available for all workers and their families.
- Labor requirements in supply-chain contracts are monitored, and appropriate actions are taken in the event of noncompliance. The company works closely with local suppliers to ensure that labor practices are satisfactory and that training support is provided where necessary.
Level 4 — Economic activity well beyond the project or company is influenced in the direction of improved resource intensity and inclusion of new beneficiaries, as evidenced by one of the following and at least four elements at Level 3:

- The company’s labor force policy and practices are viewed as standard-setting in the country, region, or sector and are cited as demonstration examples of good practice by NGO groups, international industry associations, or labor associations. The company establishes or is involved in the organization of business associations that promote good labor practices industrywide and disseminate good practice throughout the sector.
- The company institutes a broad-based program to build capacity within local companies (beyond suppliers), including development of labor standards and workplace practices like its own.
- The company’s program to attract, train, maintain, and promote vulnerable people is expanded into a broad-based collaboration with other employers and has demonstrable success in improving inclusion and opportunity for vulnerable groups, including those with HIV/AIDS. Minority and vulnerable groups are fairly represented at all levels throughout the company, including employees, management, and the board.