

# Understanding IFC's Environmental and Social Due Diligence Process



IFC and client agree to work together



## Review and Agree on Next Steps

The client receives copies of:

- IFC's Performance Standards,
- Relevant World Bank Group Environmental, Health and Safety (EHS) Guidelines, and
- Other supporting documents.

The IFC Environmental and Social (E&S) team:

- Asks the client to provide key information regarding assets and management of E&S risks and impacts.
- Assesses the project against the Performance Standards and EHS Guidelines.
- May meet with company, government, and local stakeholders to discuss E&S aspects of the project.
- Generates an E&S Review Summary (ESRS) and an E&S Action Plan (ESAP). The ESRS and ESAP are reviewed and approved by the client.



## Publicly disclose the project and consult with local community

IFC discloses its ESRS along with relevant sponsor E&S documentation on the IFC website. The client discloses project E&S assessment information locally. Projects will engage and consult with Affected Communities to ensure their awareness of the project, and provide for an ongoing constructive relationship.

For projects with potential significant adverse impacts on Affected Communities and projects involving Indigenous Peoples, IFC will make a determination of the level of community support for the project.



## Finalize the investment agreement

Once the World Bank Group Board of Directors approves the project:

- The investment agreement is mutually agreed and finalized.
- The final agreement reflects the terms of the ESAP plus any other E&S commitments.
- Funds are disbursed once the client meets disbursement conditions.



## Ongoing monitoring and disclosure

Monitoring occurs on two levels:

- Site visits from IFC staff.
- Submission of the client's Annual Monitoring Report on progress in meeting the E&S terms of the investment agreement.

Engagement between the client and Affected Communities should be ongoing. IFC will disclose the client's progress against the ESAP.

During monitoring, IFC and the client may identify opportunity for project enhancement through IFC Advisory Services.

IFC's Compliance Advisor/Ombudsman (CAO) may also provide additional oversight. The CAO is an independent office that impartially responds to E&S concerns of Affected Communities, and aims to enhance IFC accountability and outcomes.

## IFC PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

### Performance Standard 1:

#### ASSESSMENT AND MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS AND IMPACTS

Underscores the importance of identifying E&S risks and impacts, and managing E&S performance throughout the life of a project.

### Performance Standard 2:

#### LABOR AND WORKING CONDITIONS

Recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection of basic rights for workers.

### Performance Standard 3:

#### RESOURCE EFFICIENCY AND POLLUTION PREVENTION

Recognizes that increased industrial activity and urbanization often generate higher levels of air, water and land pollution, and that there are efficiency opportunities.

### Performance Standard 4:

#### COMMUNITY HEALTH, SAFETY AND SECURITY

Recognizes that projects can bring benefits to communities, but can also increase potential exposure to risks and impacts from incidents, structural failures, and hazardous materials.

### Performance Standard 5:

#### LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT

Applies to physical or economic displacement resulting from land transactions such as expropriation or negotiated settlements.

### Performance Standard 6:

#### BIODIVERSITY CONSERVATION AND SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES

Promotes the protection of biodiversity and the sustainable management and use of natural resources.

### Performance Standard 7:

#### INDIGENOUS PEOPLES

Aims to ensure that the development process fosters full respect for Indigenous Peoples.

### Performance Standard 8:

#### CULTURAL HERITAGE

Aims to protect cultural heritage from adverse impacts of project activities and support its preservation.

## WHAT ARE THE BENEFITS OF THE PERFORMANCE STANDARDS

### GUARD AGAINST UNFORESEEN RISKS AND IMPACTS

Implementing the Performance Standards helps companies identify and guard against interruptions in project execution, legal claims, brand protection, and accessing international markets.

### IMPROVE FINANCIAL AND OPERATIONAL PERFORMANCE

IFC believes that meeting the Performance Standards helps clients improve their bottom line. Implementation of the Standards can help optimize the management of inputs such as water and energy, and minimize emissions, effluents, and waste, leading to a more efficient and cost-effective operation.

### SOCIAL LICENSE TO OPERATE

In addition, the Standards help clients find ways to maximize local development benefits and encourage the practice of good corporate citizenship. This often results in greater acceptance of the project by local communities and governments, allowing companies to acquire a social license to operate. Enhanced brand value and reputation may also be attractive to new investors or financiers.

### GAIN AN INTERNATIONAL STAMP OF APPROVAL

The "Equator Principles," which have been adopted by more than 70 of the world's leading investment banks in developed and developing countries, are based on IFC's Performance Standards. These principles are estimated to cover nearly 90% of project financing in emerging markets.