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The New International Benchmark Standard for Environmental and Social Performance of the Private Sector in Developing Countries: Will It Raise or Lower the Bar?

Michael Warner

The New Standards

The International Finance Corporation (IFC) – the private sector arm of the World Bank Group – is preparing to launch a new set of business standards for managing environmental and social risks. Clients of the IFC who enter into project finance, equity investment, corporate finance or intermediary finance deals with IFC will shortly have to comply with these new standards. Many commercial banks – Barclays, HBSC, JPMorgan Chase, Standard Chartered and others - are already following IFC practice in this area. As such we may well be witnessing the dawn of a new international financial benchmark for environmental and social risk management for project finance in emerging markets. The new standards are aimed at private sector clients, firmly resting responsibility for achieving their compliance with these parties. The standards are operationalised through a new internal IFC policy on Social and Environmental Sustainability, a new policy on Disclosure, new internal IFC procedures, and various supporting guidance for clients (see Fig 1).

Some Criticism

The proposed Performance Standards' are essentially an update of IFC's eight-year-old environmental 'Safeguard Policies'. Some controversy surrounds the new standards. Certain NGOs have questioned whether the provisions assure that local communities will be adequately consulted, and whether environmental impact assessment reports will be open to full public scrutiny. There are concerns over the requirements for managing illegal squatters, and over acceptable levels of pollutants.

The principal change in the new IFC Performance Standards is not that the 'bar' might or might not be lower in places than it was.

It is that the standards represent a wholly new mechanism for deciding, investment-by-investment, where the 'bar' on environmental and social performance should lie in the first place.

What's Really Changed

Be that as it may, such commentators are perhaps missing a more substantial point. The principal change in the new IFC Performance Standards is not that the 'bar' might now be lower in places than it was (in fact, it is also higher in many cases, such as stronger health and safety standards for local communities, more stringent worker conditions and clearer rights for indigenous peoples). It is that the

Figure 1 New IFC Social and Environmental Policy and Performance Standards

Responsibility	Requirements	Implementation
IFC	Policy on Social and Environmental Sustainability Policy on Disclosure	Environmental and Social Review Procedure
Client	Social and Environmental Performance Standards: #1 - Social and Environmental Assessment and Management System #2 – Labour and Working Conditions #3 – Pollution Prevention and Abatement #4 – Community Health and Safety #5 – Land Acquisition and Involuntary Resettlement #6 – Conservation of Biodiversity and Sustainable Natural Resource Management #7 – Indigenous peoples #8 – Cultural Heritage	Guidance Notes on the Performance Standards Environmental Health and Safety Guidelines Best Practice Materials

standards represent a wholly new mechanism for deciding, investment–by-investment, where the 'bar' on environmental and social performance should lie in the first place. This is a substantial methodological advancement.

To explain. For twenty years, environmental regulators and planning authorities in developing countries, and offical development finance institutions such as the IFC, Asian Development Bank and African Development Bank, have required companies to undertake Environmental and Social Impact Assessment (ESIA) studies as a mechanism to manage significant environmental and social risks and impacts.

The approach works by exploiting 'the moment of maximum leverage'. Securing an environmental clearance certificate from domestic regulators, or closing a project financing deal with international financiers, is made conditional on the applicant committing to a series of environmental and social risk management measures. These measures might include noise barriers, certain pollution abatement technology, or a particular level of compensation for families relocated due to land acquisition.

The problem is that once this moment of leverage has passed, the ability of regulators or investors to hold companies to account rapidly diminishes. Further, because the ESIA studies are invariably outsourced to external consultants the company can feel little allegiance to the measures recommended. In reality then, the exercise is dominated by the need of companies to secure a formal licence to operate, or source new finance; or both. That the ESIA studies might also lead to better protection for local wildlife, or reduce the risk of polluted drinking water pollution, is for the most part a secondary consideration.

Performance Standard #1: the Linchpin

Enter the new IFC 'Performance Standards - a collection of eight quality standards. These cover some well-established environmental and social issues: bio-diversity conservation, involuntary resettlement etc. They also encompass a suite of newer topics: employee working conditions, supplier environmental performance, community security and indigenous peoples' intellectual property.

The linchpin of the new standards is Performance Standard number 1. This standard dramatically reframes the way in which environmental and social issues are to be handled. No longer are clients to commission isolated ESIA studies, outsourced to external consultants. Instead, PS1 presents the standards as a single, comprehensive, risk and opportunities management framework, fully integrated with the core of the business.

The language and approach of Performance Standard 1 is unashamedly business-centric. For example, a client's failure to consult with local communities on its investment plans is no longer only of concern to regulatory or financing ambitions. The consequences of failure - unfulfilled expectations to employ local people, heavy traffic passing in front of local schools, unexplained increases in the incidence of sexually transmitted disease - now appear on the company's internal register of risks as potential obstacles to the smooth operation of the business.

The emphasis on 'risks and opportunities' means that the company needs not only to avoid or reduce its environmental and social risks, but also to continuously search for opportunities that add environmental and socio-economic value to the investment. This might include finding creative ways to increase local hiring or to extend operational infrastructure (with input from local government) to provide public benefits.

But Performance Standard 1 goes further still. Gone is the free-floating list of impact management measures, which invariably fall out the back of the conventional ESIA studies and are plagued by weak management accountability. Instead, the client is asked to conduct a prior audit of the adequacy of its internal management systems and procedures to implement these measures. Where found wanting, the client may need to develop new business principles, clarify management responsibilities for engagement with workers, local community, local government and regulators, and put in place automated procedures for long-term monitoring and reporting on the effectiveness of the risk management measures.

In Practice, What Will Actually Change?

Will this new 'management systems-driven' approach make a real difference? Well, we are likely to see a significant shift in the behaviour of clients from the hiring of consultants to undertake ESIA studies, to the role for consultants in conducting audits of the company's existing performance management systems, including its human resources procedures local procurement practices and health, safety and environmental system (see Box 1).

In particular, in the areas of community health and safety, restoration of local livelihoods from land acquisition, labour standards and indigenous peoples rights, the lives of those affected by new investments in infrastructure, manufacturing, mining, tourism or agriculture should show an overall improvement compared to the previous IFC 'Safeguard Policies'. Not only do the new IFC Performance Standards cover a broader range of environmental and community issues than before. The standards also require clients to embed effective, automated, procedures for environmental and social risk and opportunities management deep inside the company, with the hope of changing for perpetuity the way in which its business is done.

Time will tell if these predictions are accurate. But the changes may well be more profound than many currently realise.

Box 1 An Illustration

A subsidiary of a large oil company is proposing to develop a new off-shore oil platform, partly financed by the IFC. To meet current IFC environmental and social standards, the company needs to prepare an Environmental Impact Assessment (EIA) report and Environmental Action Plan, compliant with the content requirements of the host country environmental regulator and the IFC. The company issues an invitation to tender to consultants who then bid for the work. The report is subsequently prepared with only minor input from company staff.

Under the new Performance Standards, the company contracts an external consultant to undertake a rapid review of its Health and Safety procedures, Environmental Management System, and its approach to stakeholder engagement. It is quickly realised that internal procedures for assessing health risks only apply to occupational health issues, not community concerns such as STDs from migrant workers during on-shore fabrication. Also, the company's database of indicators for on-going environmental performance monitoring has failed to track a series of other specific indicators generated by a previous EIA study. Further, staff capacity within the company's Community Investment department is found to be inadequate to contribute to stakeholder consultation.

Procedural and management changes are immediately made to rectify the system gaps. In addition, a new community liaison manager is contracted on a short-term basis, and 'on-the-job' staff training in stakeholder consultation planning and review integrated with preparations for the new EIA study. An EIA taskforce of internal managers is composed, and junior staff assigned 'hands-on' roles in the studies. Specialist EIA consultants are hired to assist with certain impacts, notably HIV/AIDS and marine bio-diversity.

Reference

Lastest Draft IFC Performance Standards - http://www.ifc.org/ifcext/policyreview.nsf/Content/SafeguardPolicesUpdate

Dr Michael Warner is Manager of the programme on Business and Development Performance at the Overseas Development Institute, London. He recently provided support to the IFC in training investment officers on the new environmental and social performance standards. He is also a practicing environmental and social consultant with Stakeholder Negotiation Services International Limited, working with clients in the developing world. (m.warner@odi.org.uk)

Overseas Development Institute, 111 Westminster Bridge Road, London SE1 7JD
Tel: +44 (0)20 7922 0300, Fax: +44 (0)20 7922 0399
Email: opinions@odi.org.uk
Website: www.odi.org.uk/publications/opinions