

Stakeholder Engagement Session at EDC

On the review and update of IFC's Policy and Performance
Standards on Social and Environmental Sustainability

On February 1st, 2010, Export Development Canada (EDC) hosted a half-day stakeholder engagement session with Mr. Greg Radford, Director of Environment and Social Development Department at the International Finance Corporation (IFC). The session focused on the review and update process of IFC's Policy and Performance Standards on Social and Environmental Sustainability, and of its Policy on Disclosure of Information. EDC hosted the engagement session to give Canadian stakeholders an opportunity to provide input to the process, engage directly with IFC to discuss the issues, and increase their awareness of the Performance Standards.

Mr. Radford gave a presentation on the process to review and update IFC's policy and performance standards on social and environmental responsibility, including a summary of the results of the first phase of consultation in the review process. The review process focuses on addressing clarity of language, effectiveness (i.e. what did not work) and gaps in coverage/emerging issues. The process is expected to result in an updated framework by January 2011.

Participants were invited to ask questions for IFC related to its policies (Sustainability Policy, Disclosure Policy) and to its Performance Standards (in terms of environmental issues and social issues).

Disclosure Policy

A number of participants asked for clarification on the concept of consent and what it entails. IFC stated that it does not yet have a position on consent and that it remains a significant challenge. There is a lack of consensus on key concepts such as the right to veto, and for this reason some stakeholders are opposed to the development of explicit requirements for consent at this time.

In a similar vein, some participant asked how IFC's requirement for broad community support (BCS) relates to consent, and some requested that IFC disclose its assessments of broad community support. IFC acknowledged that stakeholders are looking for more disclosure and that these issues will be examined as part of its review. IFC also clarified that the framework for BCS is posted on its website.

Participants also sought disclosure of information related to the impact of the IFC Performance Standards on the types of projects receiving, and not receiving, support. Issues raised included the number of projects rejected on first submission, positive and negative development impacts of IFC-supported projects, any changes in the sector profile of projects supported since the introduction of the Performance Standards, and the rationale for not supporting projects in terms of specific social or environmental issues.

Sustainability Policy

Some participants asked for clarification on IFC's assessment of a client's organizational capacity and the financial impacts on the client of meeting the various requirements of the performance standards. IFC stated that it may consider costs as part its assessment of client capacity. Organizational capacity is based on a range of factors including governance, and internal and external resources/expertise for managing environmental and social issues.

In response to participant questions, IFC emphasized its ongoing commitment to the following aspects of its approach:

- Assessments of clients will depend also on the nature and magnitude of the risks and impacts of the specific project.
- Categorization (Environment and Social Categories A, B, C, and FI) will continue to be based on the nature and magnitude of the risks and impacts and may vary within any given sector (e.g. Oil and Gas could be either Category A or B).
- Clients must know, manage and take ownership of their own risks. IFC will continue to rely on client information as the basis for its assessments, notwithstanding its own supervision and quality assurance program. It remains the case that Performance Standards are not a 'compliance tool', and their purpose is to achieve a positive development outcome over a reasonable period of time.

When asked about consistency in the application of the Performance Standards and outcomes between IFC and other financial institutions (e.g. Equator banks), IFC acknowledged that global implementation by other institutions of the Performance Standards has been inconsistent. IFC has a global outreach and capacity program but is not responsible for how the Equator banks implement the Performance Standards in their own projects.

A participant asked whether IFC is engaging other organizations involved in advancing development goals, besides the private sector. IFC leverages other developmental resources including other multinational development banks, overseas development agencies and the OECD through its advisory work and other programs.

Environmental Issues

Several participants asked IFC about addressing emerging concepts and risks related to climate change and water in the requirements under the Performance Standards. Suggested aspects included:

- greenhouse gas (GHG) reduction plans;
- climate change impact risk assessments and associated adaptation strategies and plans;
- scope 3 emissions (as defined in international GHG protocols); and

- water use and efficiency.

IFC acknowledged that stakeholders have requested additional assessment requirements to address climate change, or the inclusion of a climate change performance standard. If climate change impacts are material and significant and cannot be managed or mitigated, then IFC may decide not to support the project. In this regard, future support for fossil fuel extraction projects is a challenging issue for IFC and other multilateral development banks due to the tension between climate change impacts and the development goal of increasing access to power for poor people. Vulnerability to climate change impacts also represents a project risk for IFC that must be integrated into the review of projects.

IFC views water as a cross-cutting issue with linkages to other environmental aspects and all the Performance Standards, and also as a vulnerability issue (e.g. reduced water availability due to climate change). IFC recognizes the need to improve in this area and is currently conducting an analysis of the Performance Standard with respect to the full suite of water issues.

In addition water and climate change, participants asked a range of questions about IFC's approach to conservation and ecosystem issues, specifically concerning Performance Standard 6:

- Will IFC engage international conservation groups to review or revise the Performance Standard?
- Does the assessment of project impacts (under Performance Standards 6 and 8) include assessment of cumulative impacts?
- Will IFC require baselines, or include compensation mechanisms, with respect to ecosystems goods and services?

Social Issues

Questions on social issues focused on the themes of Indigenous Peoples, human rights, and development impacts.

Having noted the relatively low percentage of projects that have applied the Performance Standard on Indigenous Peoples to date, some participants asked who determines whether this standard is triggered. IFC clarified that it makes the determination and that the low rate of application is likely due to the fact the Performance Standards have only been in existence for three years. It also emphasized its other sources of experience and expertise in this area, including its engagement with Indigenous Peoples networks, as well as its in-house social specialists.

Participants asked if an Indigenous community's refusal, or lack of capacity, to engage in 'good faith negotiations' represents a lack of consent. IFC noted that the Performance Standard sets out a process of 'good faith negotiation' with

Indigenous Peoples. If the Performance Standard is triggered and negotiations do not reach an agreement or do not occur then IFC will not move the project forward.

Some participants asked if IFC could do more to support capacity-building initiatives with Indigenous Peoples to truly enable 'free, prior, informed consent' and their involvement as partners, owners, or shareholders in projects supported by IFC.

In response to a question about the consistency of the IFC standards with emerging human rights norms, IFC stated that it has collaborated with the UN secretary general's special representative on business and human rights (John Ruggie) and is currently 'road-testing' a human rights assessment methodology.

Some participants asked whether more could be done, in terms of the requirements under IFC's policies and Performance Standards, to advance development goals (e.g. poverty reduction). Will IFC develop mechanisms for people who are adversely affected by IFC projects to seek effective redress? Others asked for clarification and guidance to help manage issues and expectations associated with project-induced in-migration (e.g. company responsibility for addressing vulnerabilities of new populations, managing in-migration to mine lease areas currently not used for mining purposes).

Closing

EDC and Greg Radford of IFC thanked the participants for their input at the session. Mr. Radford added that the session helped validate some of the core themes heard elsewhere, and identify new questions and themes for IFC's consideration.