DATE: February 16, 2006

TO: Executive Directors and Alternates

FROM: W. Paati Oloso Amaah

EXTENSION: 81752

SUBJECT: IFC's Policy and Performance Standards on Social and Environmental Sustainability and IFC's Disclosure Policy: Management Response to Comments by the IFC Compliance Advisor/Ombudsman (CAO)

Attached is Management's Response to comments from the Compliance Advisor/Ombudsman (CAO) (also attached) on the document entitled "IFC's Policy and Performance Standards on Social and Environmental Sustainability and IFC's Disclosure Policy" (IFC/R2006-0010), which will be considered by the Board of Directors on Tuesday, February 21, 2006.

cc: The President
    Bank Group Senior Management
    Vice Presidents, Bank, IFC and MIGA
    Directors and Department Heads, Bank, IFC and MIGA
Note on IFC’s Compliance Adviser/Ombudsman Comments
On IFC Policy and Performance Standards on Social and Environmental Sustainability
and Disclosure of Information

Management Response to CAO Comments

February 16, 2006

1. The note circulated by the CAO dated February 9, 2006 raises a number of areas of concern in relation to the Board paper (IFC/R2006-0010). IFC has been communicating with the CAO on these issues, and has addressed points raised in the last two months. To assist the Board in its deliberations the IFC has prepared the following detailed response to the CAO’s note.

2. First and foremost, IFC does not believe that this Policy Framework represents any “institutional weakening of the commitment to Environment and Social sustainability” as suggested by the CAO. The proposed approach materially strengthens areas where policy currently exists, includes completely new standards for areas of social and environmental risks that were not covered by the Safeguard Policies, and represents a quantum leap in terms of the amount of information available to the public in relation to the environmental and social aspects of a project.

3. The CAO suggests the potential weakening of our commitment on the basis of three very specific points:

   1. That clients should be required to hire external consultants to review Social and Environmental Sustainability (S&EA) work done, no matter what their in-house capacity may be, for verification.
   2. That biodiversity objectives should outweigh all other considerations when siting projects.
   3. That there is not enough clarity on timetables for disclosure.

4. While we understand the CAO shares our concern to introduce a strong policy framework, as detailed later, we do not believe it is helpful to remove a client’s obligation to assess what is integral to their business, or to instead have multiple layers of experts reviewing each other’s work; biodiversity is a critical objective but there may be even more pressing drivers in particular cases; and the draft text regarding timing of disclosure requirements has been strengthened in the final drafts. We therefore do not think these points merit calling the new approach of the policy framework into question. Nor do we think the headline "Weakening of current institutional commitments to E&S sustainability" is deserved.

5. IFC is confident that the proposed IFC Policy Framework represents an appropriate standard and one that can be met by our clients and the clients of the many
institutions that are set to adopt them. From the ILO, to IEG, to the Overseas Development Institute, to Placer Dome and many banks, ABN AMRO among them, practitioners, international agencies, banks and companies are publicly welcoming the new framework.

6. Secondly, some of the issues raised in the CAO note go beyond the remit of the IFC Policy and Performance Standards on Social and Environmental Sustainability, and the Disclosure Policy. Some of the issues are focused on implementation and will be answered by the effective introduction and absorption of the standards. We welcome ongoing discussions with the CAO and various parts of the World Bank Group on these important operational issues.

7. Thirdly, IFC is pleased that we have been able to respond to the recommendations made by the CAO in its review of the impact and effectiveness of the Safeguard Policies by developing clearer and more comprehensive standards, consistent with key international agreements, and ensuring that a risk based system, focused on outcomes, will respond to the capacity and the commitment of the client.

8. Specifically, the following comments respond to the many issues now raised by the CAO and the numbering refers to the relevant paragraph in the CAO’s note.

9. **Paragraph 2.** On disclosure, the performance standards require clients to report on their environmental and social performance at least annually, by describing their progress in implementing the Action Plan. However, other aspects of development results, such as financial and economic performance, will often be commercially sensitive. Nevertheless, IFC will encourage clients to report publicly on other non-financial aspects of performance, but such disclosure will need to be limited to areas that are not commercially sensitive.

10. In addition, the draft disclosure policy (paragraphs 61-64) commits IFC to report on its development results. To that end, IFC has established a development effectiveness unit and put in place a development outcome tracking system (DOTS) to systematically track development results throughout the project cycle. IFC will report aggregate development results of its portfolio and its own contribution in sufficient detail to be meaningful (e.g. the distribution of results, and disaggregated results by sector and region where appropriate). IFC will explore ways in which to make the development results at the project level available to Board members on a request basis.

11. **Paragraph 3.2.** For all decisions relating to social and environmental issues, the ESRP states that the lead environmental or social specialist must record the decision and the rationale or analysis behind it in the Environmental and Social Review Document (ESRD). For each project, IFC will publicly disclose the rationale behind the categorization of the investment. Furthermore, the Environment and Social Review Summary (ESRS) should indicate any community reporting obligations that have been identified during client assessment or IFC review.
12. The ESRS will contain the information on:

- IFC’s review findings, the assessment documents of the client and any further studies or analysis expected to be undertaken;
- the rationale for the categorization;
- the key social and environmental impacts and the mitigation measures proposed to address these; and
- the client’s community engagement process to date, and proposed ongoing engagement.

13. **Paragraph 3.3.** Performance Standard 1 makes it clearer that: (i) the client’s engagement process will focus on “the social and environmental risks and potential adverse impacts, and the proposed measures and actions to address these” (paragraph 21); and (ii) the Action Plan – which may constitute a number of different plans, such as a Resettlement Action Plan (RAP), a Biodiversity Action Plan (BAP) – will “reflect the outcomes of social and environmental risks and adverse impacts and the proposed measures and actions to address these, consistent with the requirements under paragraph 21.” As such, the Action Plan is a product of ongoing engagement with the affected communities, and is subject to disclosure once it is finalized. While PS 1 does not require the client to disclose the Action Plan in draft form, in keeping with standard practice, the client may well disclose one or more particular components of the Action Plan in draft form, such as a RAP to facilitate informed consultation.

14. The ESRP is clear that the time period for IFC’s disclosure of the Environmental and Social Review Summary will be restarted in the event of material deficiencies in the information previously disclosed. A material deficiency is one that would lead the reader to have an inaccurate understanding of the potential social and environmental impacts or mitigation measures. As we have already discussed in previous conversations with the CAO, we do not believe that defining “materiality” further is useful in the abstract. We will be working with the CAO in the coming weeks, as agreed, to collaborate on the Performance Indicators for the Performance Standards and to reflect any comments they may have on the most recent draft of the ESRP.

15. **Paragraph 3.4.** IFC’s commitment to provide a summary of its assessment of the governance risks surrounding extractive industries projects is found in the Disclosure Policy. More generally, coordination between the IFC and IBRD has been enhanced over the last 5 years, since some departments are jointly managed in so called ‘Global Product Groups’.

16. Beyond the extractives sector IFC fully recognizes the need for coordination with IBRD on governance and socio-political risks. The Sustainability Policy commits IFC to liaise with the World Bank (or potentially other international financial institutions, depending on the issue) on social and environmental matters, as illustrated by the following examples:

- Liaison and coordination with the World Bank on country systems, or the social or environmental aspects of national policy or enforcement or monitoring issues.
- Liaison with relevant international financial institutions or national agencies on strategic, regional, or sectoral environmental assessment where appropriate for private sector projects with significant social or environmental issues.

We also highlight the need for such coordination in the ESRP.

17. A statement on institutional coordination on country risks, as proposed by the CAO, goes beyond the scope of the Sustainability Policy. The solutions to this coordination challenge are complex and must address two very different sets of institutional mandates, processes, competencies, and cultures. In fact, as the CAO is aware, the President is currently taking the initiative to inquire and address improved institutional coordination. We welcome this initiative, and intend to involve a cross section of IFC to contribute to the process fully with regard to issues of environmental and social sustainability.

18. **Paragraph 3.5.** As stated in the IFC response to the CAO’s statement circulated in September 2005, IFC disagrees that the Sustainability Policy, the Performance Standards, or the Environmental and Social Review Procedure should include a statement on IFC’s social and environmental capacity. This is a question of implementation and, as such, does not belong in the policy; it is an issue for IFC management on a continuing basis. IFC’s Budget and Business Plan, which IFC presents to its Board of Directors annually, proposes the allocation of resources within IFC together with the identification and assessment of capacity gaps. IFC intends, in response to suggestions from some Executive Directors, to give information in the Budget and Business Plan the costs of operating the performance standards system. The Budget and Business Plan will be disclosed in the future when the final draft Disclosure Policy is approved.

19. IFC has already begun building its capacity to implement the commitments proposed in the final draft policies; in terms of the capacity of the Environmental and Social Development Department (CES), as stated in the Board paper, CES, in the second of the three year budgetary cycle, provided for building capacity in the department. The number of environmental and social staff dedicated to project review has increased from 39 to 46 over the past two years with a view to reaching 50 by FY07. In addition, CES is developing greater contacts and relationships with consultants who are able to advise clients appropriately on the requirements of the Performance Standards. This increased specialist capacity, with staff situated within CES in HQ or the field, or co-located in Investment Departments, as well as our ability to leverage it effectively helps IFC appraise projects, support clients, and supervise projects. The new staffing level of CES reflects the anticipated additional work in the area of labor and working conditions, and the need to build up internal quality assurance systems. Further, CES has developed and begun delivering training across IFC on the Performance Standards and a web based module for ongoing learning is being developed.

20. **Paragraph 4.2.** A well executed process of free, prior and informed consultation with the affected communities should enable the project to enjoy broad support for the project from the communities affected. However, we agree with the CAO’s observation
that under certain circumstances broad community support may remain elusive even when the client's engagement process demonstrates best practice.

21. This is why IFC proposes in addition to a detailed review of the client's process (annexed to the Board paper as Annex F), an analysis of both the formal and informal expressions of support or opposition within the affected communities on a "disaggregated basis". This means IFC's analysis will include: (i) the client's engagement process potentially leading to certain opinions; (ii) who in the community is saying what; and (iii) the drivers behind these opinions; all in an effort to understand the complex process of opinion making within the communities. If community support seems inconclusive, despite what IFC would consider a best practice engagement process by the client, IFC will inquire into why this is so. Naturally, IFC's attention will focus most closely on the direct voice, and its expression, of those who will be most directly affected (positively or negatively), even though IFC will review all relevant expressions of views, and also the political and societal contexts within which the opinions are expressed.

22. Ultimately, the determination of broad community support involves a judgment call, and this cannot be and should not be subjected to a checklist treatment. IFC will have to put forward the outcome of its analysis of the client's process and the level of community support to its Board of Directors when presenting a project for board approval. If the Board disagrees with IFC's analysis or judgment that the community is broadly in support of the project, IFC will not be able to proceed with the project.

23. **Paragraph 4.3.** We agree that community participation in monitoring can be mutually beneficial to communities and companies in various circumstances. While we are keen to encourage companies to solicit the engagement of community members in project monitoring, IFC's project experience and the experience of other projects in emerging markets, indicates that this is appropriate for a small minority of IFC projects. That is why we have addressed this issue in the Guidance Notes. There are many types of community monitoring and they are subject to many variables, from project impacts to complexity of monitoring programs to community and civil society capacity and willingness.

24. IFC will be updating the Good Practice Manual on Disclosure and Consultation which will provide more detailed guidance to clients on how to engage with communities, and will include examples of best practice in community monitoring. Furthermore, because of the importance of this issue to community leaders and civil society organizations, we have recently proposed the idea of a community handbook to be written in collaboration with the NGOs. This handbook could address various issues from the perspective of the community, and in particular cover those issues which are addressed in the Performance Standards (where they are described from the perspective of business). A section of the handbook may address community monitoring programs, along with other subjects of interest to the communities, such as participation in assessment and project consultation.

25. **Paragraph 4.4.** The EIR Management Response with respect to the Voluntary Principles, resulted in two related but separate outcomes. The first is the implementation
of the Voluntary Principles in extractive projects. The Oil, Gas and Mining Department has an internal process to implement the Voluntary Principles, with input from external experts, as needed, on Voluntary Principles for relevant projects. This is the direct outcome of the Management Response to implement the Voluntary Principles in respect of extractive industries financed by IFC.

26. The second outcome is the proposed paragraphs on security personnel in Performance Standard 4. This Performance Standard was specifically drafted to address all sectors in all regions financed by IFC, including small scale operations that may place night watchmen or other minimal security arrangements to large scale operations with potential involvement of the public forces. As a result, Performance Standard 4 captures the main principles of engagement of security personnel, but is not intended to be a “summary” of the Voluntary Principles for the extractive sector.

27. During the last public comment period, some human rights organizations provided suggestions to improve the consistency between Performance Standard 4 and the Voluntary Principles. These comments were taken on board in the most recent draft Performance Standard. Guidance Note 4 provides lengthy guidance in this area, clarifies the link between security and human rights. In addition, the reference section of the Guidance Note refers to the Voluntary Principles.

28. Management considers that these two approaches fully satisfy the institutional commitment to follow up on the Voluntary Principles.

29. **Paragraph 4.5.** The Management Response to the EIR did commit to carefully review governance risks for all EI projects and this is captured in paragraph 22 of the Sustainability Policy. We believe that the current language can be clarified to make it absolutely clear that this applies to both significant projects and smaller projects, and we will do so. The Management Response to the EIR, together with paragraph 22, does not confine the review of governance risks to only revenue management risks, though this will often be the prime focus, and other risks would be considered when appropriate. Where governance risks to the use of revenues have knock on impacts in social or other terms then this would be expected to be considered as well as the fiscal aspects, and this too will be clarified.

30. In the overall context of EI projects and governance, it is important to note that the Management Response contained a number of other provisions designed to help ensure World Bank Group focus on the issues of governance and extractive industries, but which, appropriately, are not specifically referred to, or repeated, in the Sustainability Policy and Performance Standards. These include, for example, the recommendation that the CASs of resource rich countries and countries with substantial resources systematically address relevant EI issues and that the WBG should carefully consider the sequencing of Bank Group activities in extractive industries. Appropriate guidelines for how this can be done have been made available, as has a resource note for LICUS countries and EI. Since the Management Response was endorsed, IFC has consistently engaged with Bank colleagues in assessing governance risks and in agreeing approaches to address risks wherever possible.
31. **Paragraph 5.2.** In the latest draft, we have added specific provisions about IFC's commitment to require clients to carry out external assessments where IFC deems it necessary (see the Sustainability Policy, paragraph 15). For the client, their general responsibilities are captured in Performance Standard 1. In particular, paragraph 7 effectively puts the client on notice that external assessments may be required. Additional requirements for clients are found in Performance Standard 6 (paragraph 4), Performance Standard 7 (paragraph 11) and Performance Standard 8 (paragraph 4), which specify that certain project scenarios will need to be assessed by qualified and experienced external experts. We believe these provisions will ensure that third party assessments are in fact carried out in appropriate scenarios.

32. We would also like to stress that the move to a cradle to grave approach to management systems – taking all stages of assessment, management, monitoring and reporting and addressing them in Performance Standard 1 -- means that our focus is on ensuring that the results of assessment become a living part of the day to day management of a company's operations. This complete package of assessment and management system is an important new departure by the standards and essential to our focus on outcomes.

33. **Paragraph 5.3.** As a departure from OP 4.04, Performance Standard 6 deals with a broader range of habitats, from modified habitats, natural habitats, critical habitats, to legally protected areas. In this context, the language quoted from OP 4.04, which states that projects should be sited on land that was already converted, does give sufficient guidance on the level of conversion that will be deemed acceptable for project siting purpose. Instead, Performance Standard 6 requires the clients to first and foremost avoid any adverse impacts on biodiversity.

34. In addition, paragraph 16 of Performance Standard 6 refers to siting plantation projects in unforested or converted land, as previously discussed with CAO staff. In this case, the specific references to unforested or unconverted land, in the context of plantation projects, make sense because this will provide guidance to clients on how to site such projects.

35. Project siting decisions normally involve considerations beyond biodiversity, such as social and technical issues, and IFC agrees with the CAO's statement that siting decisions should consider technical, political and other environmental and social factors. However, we do not find that the reference to technical, political, environmental and social factors belongs in Performance Standard 6, which is a standard that is focused only on biodiversity.

36. It is our view that Performance Standard 1 should provide a road map to project siting, in terms of what to avoid and what to prefer. For projects with potential significant adverse impacts that are diverse, irreversible, or unprecedented, the client is required to carry out an examination of technically and financially feasible alternatives to the source of potential impacts. This examination should enable the client to weigh technical, political, environmental and social factors, prior to the project's final decision on the project site. The preference for land that is already converted over land that is rich
in biodiversity should be considered in this context, together with the express requirement in each Performance Standard to avoid, minimize, mitigate or compensate for adverse impacts, whether they are environmental, social or other related impacts. This consideration will have to weigh all applicable factors and requirements, and the client will be required to justify its proposed course of action, including the site of the project.

37. Paragraph 5.4. In relation to the timing of disclosure links between consultation and disclosure, following a meeting with CAO staff on 8 December 2005, the disclosure policy review team agreed to further explain how the timing of the client’s disclosure responsibilities and those of IFC relate to each other. As a result, IFC staff have included paragraph 12 in the final draft Disclosure Policy, which explicitly states that IFC will only disclose its ESRS once the client has undertaken its upfront disclosure requirements and, where applicable, conducted an effective consultation process consistent with the Performance Standards; and once IFC is assured that the client can be expected to undertake the project in a manner consistent with the Performance Standards. In the meeting on 8 December 2006, CAO staff mentioned that they found this proposal helpful.

38. With regard to the timing of the client’s disclosure responsibilities, the final draft Performance Standard 1 (paragraph 20) has been revised to clarify that disclosure should occur during the S&EA process before the project construction commences, and on an ongoing basis.
IFC's Review of Safeguard Policies & Policy on Disclosure of Information:
CAO comments on the January 25, 2005 drafts of IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information

1. Introduction

1.1 The purpose of this note is to provide the CAO's comments on IFC's January 25, 2006 drafts of its Policy and Performance Standards on Social and Environmental Sustainability (PPS), due to be submitted by the IFC to the Board for approval on February 21, 2006. These comments will be distributed to the Presidents Office, members of the Board and to IFC prior to the Board discussion.

1.2 In early September 2005, the CAO discussed with CODE - and made public - its comprehensive comments on IFC's August 2005 draft PPS and Disclosure Policy. This document considered the extent to which the findings of the CAO's January 2003 Safeguard Policy Review (SPR) had been integrated into IFC's revised approach. CAO also submitted a more detailed set of comments on the September 22, 2006 Disclosure Policy to IFC, which it publicly disclosed. IFC subsequently responded to the CAO's comments and made a number of revisions to the draft PPS and Disclosure Policy.

1.3 CAO appreciates that many of the comments made in our earlier statements have been addressed. We also remain convinced that the transition towards an outcomes-focused approach, with much clearer definition of responsibilities between IFC and its clients, is appropriate because it allows for greater flexibility and responsiveness. However, there are some important issues about which we have remaining concerns based on our shared belief with IFC that 'transparency and accountability are fundamental to fulfilling IFC's development mandate and strengthening public trust in the IFC and its clients', as well as our experience of handling complaints received by our office and audits we have undertaken over the last two years. In particular, we consider that the IFC exposes affected communities, its clients, and itself to avoidable risks by not fully:

i) Supporting the transition to development outcomes with a firm commitment (by IFC or its clients) to reporting on development impact/effectiveness at the project level (see Section 2);

ii) Addressing risks to the institution in the application of the current safeguard policies identified by the CAO in recent years (see Section 3);

iii) Implementing some of the key commitments in the Extractive Industries Review (EIR) Management Response that were to be incorporated in the process of developing the PPS (see Section 4); or

iv) Ensuring that the PPS do not represent a weakening of the current institutional commitments to E&S sustainability and transparency and accountability (see Section 5).

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2. Developing firmer commitments to reporting on development effectiveness

2.1 CAO has already publicly noted our concerns that the commitments to development impact reporting are very weak (see footnotes 1 and 2 above) and fall short of the CAO’s recommendations – both within the PPS and the revised Disclosure Policy. CAO believes that the transition to a more flexible, outcomes-based approach must be underpinned by a commitment to systematic monitoring and reporting on achievement of outcomes.

2.2 The current draft PPS and disclosure policy: (i) requires disclosure of anticipated development impacts (and IFC’s expected development contribution) in the pre-project-approval Summary of Proposed Investment (SPI); and (ii) does not require clients to subsequently report on whether or not these anticipated development impacts or IFC’s expected development contribution have been met throughout the life of the project. We believe that the lack of a requirement to report on development impacts and development contribution at the project level exposes both the IFC and its clients to increased risks, where interested and affected parties have concerns that anticipated development impacts are not being realized. It could also lead to complaints from project affected people.

2.3 CAO understands that IFC, through its Development Effectiveness Unit, is committed to monitoring and evaluating project-specific information. We also understand IFC’s pragmatic reticence not to disclose proprietary information. However, CAO does not accept IFC’s justification for not publicly reporting on project-level development outcomes compared to anticipated development impacts reported in the SPI, nor for IFC not reporting on its development contribution at the project level.

3. Addressing institutional risks identified from the CAO’s recent experience

3.1 The CAO’s experience with handling complaints and audits over the past five years, and increasingly in the latter two years, have highlighted the following lessons concerning the risks inherent in the current policy and procedural framework for handling social and environmental issues:

i) Transparency and accountability for key decisions that are integral to IFC’s current Environmental and Social (E&S) Review Procedures are weak – for example, decisions on the applicability of a particular policy requirement or adequacy of client’s EA’s or consultation processes are made without any justification or rationale being recorded;

ii) Co-ordination with the IBRD is critical in improving the assessment of governance and other socio-political country risks, particularly with larger/sensitive projects; and

iii) Capacity to cope with some core social and environmental policy requirements – such as the concepts of meaningful consultation (to be replaced by FPIC) or critical natural habitat – is often insufficient given the socio-political challenges surrounding these issues, which are increasingly prevalent in the investment environment.

3.2 Transparency and accountability: The Environmental and Social Review Document (ESRD), as required under IFC’s draft revised E&S Review Procedure (ESRP), should enable CAO to process complaints or conduct audits with greater clarity concerning the rationale for decision-making. CAO urges IFC to ensure that the Environmental and Social Review Summary (ESRS) that IFC releases publicly to the Infoshop, and which is derived from the ESRD, contains sufficient information to support transparency and accountability for decision-making to interested and affected parties. Either within the PPS or E&S Review Procedure, CAO would
like to see a much clearer description of the basis upon which IFC will judge that E&S Assessment documentation.

3.3 The PPS should also strengthen the requirement for the draft Action Plan – where it contains social and environmental provisions that may affect local people – to be disclosed and consulted upon by project affected people prior to project approval. CAO would also welcome greater clarity on the criteria IFC will use to determine "materiality", where they refer to material changes or material influence in the PPS and ESRPs.

3.4 **Coordination with IBRD on governance and socio-political risks:** To some extent this aspect is addressed in the PPS, particularly in relation to significant new extractive industry projects. However, a more general commitment to coordination on governance and socio-political risks is not currently provided for. Such coordination might help to flag, and in turn reconcile, intra-institutional divergences of opinion on high-profile projects.

3.5 **Capacity within IFC:** This aspect is not addressed in the PPS or E&S Review procedures. CAO would welcome a considered response from IFC to our expressed concerns regarding adequacy of capacity, both for S&E appraisal of projects, support to clients and IFC investment staff, and during project supervision.

4. **Fully implementing key commitments in the EIR Management Response**

4.1 The commitments articulated in the Management Response to the EIR have largely been incorporated into the latest drafts of the PPS, but with some notable exceptions. These relate to a partial adoption or implementation of the Management Response commitments as opposed to the commitments being ignored, yet CAO believes that the aspects highlighted below should be reinforced. In addition, IFC has indicated that a number of the Management Response commitments will be implemented through the revised EHS Guidelines, which are not yet available.

4.2 **Free, prior and informed consultation (FPIC) leading to broad community support:** A definition of Broad Community Support has never been publicly articulated and the question of what constitutes FPIC has been the subject of considerable debate. CAO welcomes the better definition of FPIC and expectations of clients in the final PPS. Once publicly released, IFC's recently produced draft document outlining IFC's approach to Determining Broad Community Support which will be included IFC's Environmental and Social Review Procedures (ESRP), should bring further clarity to external parties. However, IFC has not explained how it will deal with situations where clients demonstrate best practice in striving to ensure FPIC, but where Broad Community Support remains elusive. This uncertainty is perhaps of greatest and common concern to potentially affected communities and to prospective clients.

4.3 **Community participation in monitoring:** The only reference to community participation in monitoring is in Guidance Note 1, which limits participatory monitoring to high-risk projects, whereas CAO considers that community participation in monitoring can be mutually beneficial to communities and companies in a wider set of circumstances. The PPS should specifically encourage participatory monitoring of Action Plan implementation in a broader set of circumstances, in keeping with the commitment in the Management Response to the EIR to "encourage the development of capacity in communities to monitor projects that affect them".
4.4 **Security and Human Rights:** The EIR Management Response committed to requiring clients to follow provisions consistent with the US/UK Voluntary Principles on Security and Human Rights. There is no explicit reference to the link between security and human rights, which was the central thrust of the Voluntary Principles, within Performance Standard 4. The requirements are generic to all sectors, which while positive in principle, fails to flag the specific issues and concerns of relevance to extractive sectors. Overall the current wording is too limited to effectively require clients to implement provisions that are consistent with the Voluntary Principles – as committed to in the EIR Management Response.

4.5 **Revenue management risks for smaller projects:** The EIR Management Response commitment to carefully review the revenue management risks of smaller projects is not addressed in the final PPS. IFC have advised that the review of the revenue management risks will be the responsibility of the investment departments. However, CAO considers that the links between such governance risks and potential social impacts on affected communities should be explicitly addressed in the S&E appraisal of projects, and should be incorporated in the drafting of the E&S Guidelines.

5. **Weakening of current institutional commitments to E&S sustainability**

5.1 CAO welcomes that the latest drafts of the PPS address some of the areas of policy weakening that CAO flagged to IFC in August 2005, but considers that a few areas of policy weakening still remain.

5.2 **Client's 'objective' involvement in self-assessment:** Performance Standard 1 requires that the Social and Environmental Assessment (S&EA) be "an adequate and objective evaluation and presentation of the issues", and provides for clients to undertake the S&EA in all situations where they have the requisite capacity in-house. CAO notes that for projects with significant impacts, clients are required to retain qualified and experienced external experts to independently verify monitoring information. CAO believes that this same principle should be extended to the conduct of S&EA by IFC clients, and that in such circumstances, IFC should ensure that independent external verification has occurred.

5.3 **Weakening of biodiversity provisions:** The current Natural Habitats Policy (OP4.04) includes the principle that projects should be sited on land that was already converted or degraded wherever feasible — CAO considers that this provision should be retained, and that feasibility be determined based on a consideration of technical, political and other environmental and social factors.

5.4 **Timing of disclosure and links between consultation and disclosure:** Neither the PPS nor the Disclosure Policy are clear about the timing of disclosure of key documents to affected communities, such as the S&EA and Action Plan, to ensure that they have adequate opportunity to consider their implications. In addition, they do not require — unlike the 1998 Disclosure Policy and E&S Review procedure — that sufficient project-level consultations be undertaken on all material or environmental social issues in advance of the pre-Board 30 – 60 day consultations. CAO considers that both these aspects should be addressed.

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3 IFC's 1998 Disclosure policy requires that "IFC staff must be satisfied that the EA report is complete in all material respects before releasing it to the InfoShop". The 1998 E&S Review Procedures require that the InfoShop disclosures include "all supplements and addenda to the EA report and the responses to the public consultation process".