Updated IFC Performance Standards – Summary and analysis of social components

The International Finance Corporation (IFC) has released its updated Sustainability Framework that will come into effect January 1, 2012, for projects and companies that have embraced the IFC’s environmental and social performance standards. Chief among the changes to the Sustainability Policy and Performance Standards (PS) is the increased emphasis on free, prior and informed consent. Of course, as in the past, these changes are forward-looking and only apply to projects starting in January. Also, as in the past, companies and funders will be under pressure to step up to the enhanced standards, whether they are required to or not.

In late October, the updated guidance notes to the PS were made available. With the official launch of the Sustainability Framework less than two months away, now is the time to start thinking about what the changes mean and what to do about them. Following are some initial thoughts about some of the priority areas to think about, keeping in mind that people’s understanding and implementation of the standards will evolve over time as they incorporate them into their business cultures.

Of all the changes in the IFC’s new Sustainability Framework, the new standards for free, prior and informed consent (FPIC) will require the most effort and adjustment.
Major Changes to the Performance Standards

**Free, Prior and Informed Consent** – This is the big one. To no-one’s surprise, the updated Performance Standards incorporate free, prior, and informed consent (FPIC) in circumstances in which indigenous peoples are affected. People who want to conform to the PS will now need to obtain FPIC from affected communities of indigenous peoples on “project design, implementation, and expected outcomes”. (PS 7 Para 11) Previously, free, prior and informed consultation was sought. The circumstances include project activities that:

(i) are to be located on or make commercial use of natural resources on lands subject to traditional ownership and/or under customary use by indigenous peoples;
(ii) require relocation of indigenous peoples from traditional or customary lands; or
(iii) involve commercial use of indigenous peoples’ cultural resources. (PS 7 Paras 13 to 17)

These changes reflect two recent trends: i) the increasing public expectation that extractive companies practice FPIC in their relations with communities, and ii) the growing attention on the potential impacts extractive projects can have on indigenous peoples. Many in the industry have taken a proactive approach in the face of these trends and already seek free, prior, and informed consent as common practice when projects affect indigenous peoples, so the proposed change will make little difference to their operations. But you can expect to see an evolving debate between now and next summer on what “consent” means and whether it’s a snapshot or a video – i.e., a one-time event or something that evolves and is continually renewed.

One of the problems with this, of course, is that with people rallying to the cry of consent it is quite possible some of those other, foundational letters – like the I for informed – could get lost in the noise.

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1 The changes referenced are either quoted directly or summarized from IFC documents available at [http://www.ifc.org/ifcext/policyreview.nsf](http://www.ifc.org/ifcext/policyreview.nsf). The brackets that follow each reference indicate the Performance Standard and paragraph number.
2 *Monkey Forest’s* article on FPIC in the July 2011 issue of Mining, People and the Environment can be downloaded at: [http://www.monkey-forest.net/news/articles44.php](http://www.monkey-forest.net/news/articles44.php)
3 *Monkey Forest’s* recent analysis of the growing focus on the rights of indigenous peoples can be downloaded at: [http://www.monkey-forest.net/news/articles45.php](http://www.monkey-forest.net/news/articles45.php)
Other notable changes to the Performance Standards include:

**Stakeholder engagement** – The updates to PS 1 require stakeholder engagement to go beyond affected communities to other spheres of interest, as well as requiring external communications to facilitate a dialog with all stakeholders. (PS 1 Para 26) A stakeholder framework will be required, even if not all stakeholders are identified. (PS 1 Para 30) In practical terms, this requires projects to devote more resources to external communications and to start the stakeholder-engagement process earlier than many projects are currently doing.

From our perspective, that supports current best developing practice and underlines that one of the first things assessors look at when doing a review of how companies and/or projects conform to the PS is the stakeholder framework.

**Resettlement** – The increased focus on people without formal property rights is a welcome change to PS 5. Though most resettlement projects MFC has reviewed recognize formal property rights after the resettlement process, the concept of recognizing people with no property rights is often not intuitive to projects or to corporate organizations with limited resettlement experience. This clarification better communicates the concept. Similarly, the added objective of avoiding forced evictions is welcome, as this concept is sometimes lost on managers with little recent resettlement experience. Finally, the proposed completion audit will help projects meet implementation targets for their resettlement plans. (PS 5)

**Thematic issues** – The changes strengthen the IFC’s commitments to climate change, business and human rights, corporate governance and equality. Specific requirements include:

- The IFC acknowledges the responsibility of the private sector to respect human rights and encourages clients to undertake additional due diligence in high-risk circumstances. (PS 1 Para 6) Given the nature of extractive projects, there will be increasing demands for proponents to conduct human-rights impact and risk assessments (HRIAs). And, while that’s good, best practice is still to include conflict management in these plans: Conflict, human-rights impact and risk assessments (CHRIAs).

- The IFC addresses climate change by lowering the thresholds of clients’
allowable emissions from 100,000 to 25,000 tonnes CO₂ equivalent per year. (PS 3 Para 8) PS 3 now requires clients to use water in an efficient manner, to examine the impacts of their water consumption, and to understand how a project may have an impact on the broader ecosystem. The IFC expects this increased focus will encourage clients to calculate their emissions on an ongoing basis and focus more of their resources on energy efficiency.

- Organizations seeking to conform with the PS will now need to continuously screen and monitor for supply-chain issues such as child and forced labor, and address serious safety issues. (PS 2) As well, they will need to assess whether their primary suppliers are contributing to degradation of conversion of natural habitats. (PS 6) Supply-chain monitoring is a weak area for many organizations, and projects will likely need to increase their capacity to take this on.

Additional definitions or clarification – There are many minor changes in definitions and clarifications in the updated PS that are likely to effectively change project behavior. Some examples include:

- Many of the projects MFC has reviewed have done a good job of assessing and managing social impacts, but have been silent on social risks. This is partly because it is unclear what constitutes a social risk, and one of the most welcome additions in the updated PS is the inclusion of definitions of risk and impact. (PS 1 Footnote 2 and 3)

- There is more emphasis on participatory monitoring. This is a community-engagement technique that has been around for a decade on environmental impacts and is slowly gaining acceptance for social ones. Social reviewers of projects now will likely increase recommendations for its use. (PS 1 Para 22)

- The proposed requirements for better-quality worker accommodations, with clear definitions, likely means that projects not following best practices will need to devote additional resources to upgrade accommodations. (PS 2 Para 12)

- The updated PS 7 expands the definition of indigenous peoples. This effectively means more people will be defined as indigenous peoples, with a corresponding increase in the application of PS 7: Indigenous Peoples. (PS 7 Para 6)
Next Steps

Taken together, the changes in the updated PS will affect how funders will assess projects for conformance to the IFC PS. The 200-page Guidance Notes to the updated PS gives implementers more practical ideas of how the PS will be applied come Jan. 1, 2012. Monkey Forest is currently updating its purpose-built assessment system, PRIMATE (PRoject Impact MATrix Evaluation tool) and its associated User Guide that summarizes the PS and the Guidance Notes into an easy-to-read format. The updated PRIMATE and User Guide will be complete in December. More to the point, we will continue to monitor and occasionally report on how the changes are being implemented and what the law of unexpected consequences produces with them. For more information:

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