

IFC Performance Standards: Lessons Learned

By Mehrdad Nazari

The [IFC Performance Standards on Social & Environmental Sustainability](#) have emerged as the de facto benchmark for developing and financing responsible extractive projects in emerging markets. The Canadian government's March 2009 CSR Strategy for the Canadian International Extractive Sector, [Building the Canadian Advantage](#), also includes the IFC Performance Standards. In this article, I review the genesis, significance and key challenges as seen also from discussions with participants of over 20 workshops and training courses delivered in Canada, China, Peru, UK and Venezuela since 2006.

Genesis

Responding to continued criticism by NGOs, the World Bank Group (WBG) launched its [Extractive Industry Review](#) in 2001. One outcome of this review was a major overhaul of the procedures and standards of the [International Finance Corporation](#) (IFC), a member of the WBG focused on private sector developments. IFC's Performance Standards were published in 2006.

Significance

The IFC Performance Standards replaced the [World Bank's Safeguard Policies](#) for private sector operations. Also, the [Equator Principles](#) emerged as a derivative of the IFC Performance Standards. To date, the Equator Principles have been adopted by over 60 financial institutions involved in project finance. This includes key Export Credit Agencies, such as [Export Development Canada](#) (EDC), which reported a business volume in the extractive sector exceeding CAN\$27 billion in 2008 (IFC: US\$1.34 billion).

The IFC Performance Standards (PS) are organized in eight chapters (46 pages). Their self-explanatory headings are listed below:

- PS 1: Social and Environmental Assessment and Management Systems
- PS 2: Labor and Working Conditions



Biodiversity Conservation and Sustainable Natural Resource Management are two key chapters of the IFC Performance Standards.

PS 3: Pollution Prevention and Abatement

PS 4: Community Health, Safety and Security

PS 5: Land Acquisition and Involuntary Resettlement

PS 6: Biodiversity Conservation and Sustainable Natural Resource Management

PS 7: Indigenous Peoples

PS 8: Cultural Heritage

Extractive projects often trigger most if not all of the above listed Performance Standards, requiring comprehensive environmental and social impact assessment (ESIA) studies. The IFC Performance Standards are complemented by additional tools. These include detailed [Guidance Notes on the IFC Performance Standards](#) (178 pages, updated in July 2007), generic and sector specific [Environmental, Health & Safety \(EHS\) Guidelines](#) and a series of valuable [Good Practice Documents](#).

The IFC Performance Standards require a very participative approach in terms of stakeholder engagement. This approach should ensure Free (of intimidation and coercion), Prior (timely and relevant disclosure) and Informed Consultation (understandable and accessible) – together commonly referred to as FPIC - with project affected communities. Project developers are further expected to secure Broad Community Support (BCS). This can be present and demonstrated even if some individuals or groups object to a project. IFC's guidelines provide a series of tests to help determine and demonstrate whether or not a project has met FPIC and secured BCS.

Project developers are expected to evaluate and mitigate the risks to health and safety of affected communities during the design, construction, operation and decommissioning of a project. Safeguarding of personnel and property should be carried out in a legitimate manner that minimizes risks to the community's safety and security,

and safeguards human rights. Here, the [Voluntary Principles on Security and Human Rights](#) provides an internationally accepted framework relevant to the extractive sector. Dealing with these issues in post-conflict states or large-scale artisanal mining contexts can be particularly challenging.

Biodiversity

In view of risks and vulnerability of biodiversity and natural resources, mitigation measures may be required even if project-impacted habitats have been previously disturbed or are not legally protected. Additional requirements include the need to evaluate greenhouse gas (GHG) emissions (threshold: 100,000 tons CO2 equivalent per year). Importantly, the concept of offsets has been introduced. This expands the strategic options available to project developers to address specific issues of concerns (see also the MINING.com Magazine article, [Biodiversity Offsets in Mining](#)).

Involuntary Resettlement

In addition to risks to livelihood of affected communities, resettlement programs can also be associated with significant costs, delays and reputational damage to project developers. Related IFC Performance Standards are complex and triggered by both physical displacement of people and by adverse livelihood impacts (economic displacement). Eligibility for resettlement assistance and compensation may exist even in the absence or

lack of legal titles, such as is the case with customary land use and communal ownership by Indigenous Peoples.

Revisions in Progress

In September 2009, the IFC launched a revision process of the IFC Performance Standards. An updated framework is expected to be released by early 2011. Expectations for clarification and changes are contained in the [IFC's Progress Report on Phase I of Consultation](#), published in January 2010.

In addition to changes related to human rights, Indigenous People, FPIC, climate change and water, I would also expect to see the references to and integration of other important tools and guidelines related to the extractive sector. Those which have also been included in the Canadian Government's March 2009 CSR Strategy include the [Voluntary Principles on Security and Human Rights](#), the [Extractive Industry Transparency Initiative](#), and the [GRI's Sustainability Reporting Framework](#) (see also the related MINING.com Magazine article, "Sustainability Reporting using GRI: Lessons Learned").

Readiness Assessment

The introduction of the IFC Performance Standards has been a fairly recent phenomenon. "Local EIAs" (environmental impact assessments), designed primarily to satisfy local permitting requirements, may fall short of being "bankable." Learning from CFOs, Readiness

Assessments are being used as a tool to help identify gaps, improve processes and documentation, and provide training to key staff in order to simplify and shorten the due diligence process applied by lenders and investors. ■

[Mehrdad Nazari](#) is Senior ESIA & CSR Advisor at [Prizma](#), providing training and advisory services related to IFC Performance Standards, Equator Principles and Sustainability Reporting. He invites your comments, also on [Prizma's blog](#).

Links and References

- [Building the Canadian Adv.](#)
- [Equator Principles](#)
- [Export Development Canada](#)
- [Extractive Industry Transparency Initiative](#)
- [Extractive Industry Review](#)
- [GRI's Sustainability Reporting...](#)
- [Guidance Notes on the IFC Performance Standards](#)
- [IFC Environmental, Health &...](#)
- [IFC Good Practice Documents](#)
- [IFC's Progress Report on...](#)
- [IFC Performance Standards...](#)
- [International Finance Corp.](#)
- [Prizma](#)
- [Prizma's blog](#)
- [Voluntary Principles on...](#)
- [World Bank's Safeguard Policies](#)

Click here for full list of links:
<http://go.mining.com/mar10-a10>



CostMine
Your Cost Data Resource Center

www.costmine.com

Mining Cost Services • Equipment Cost Calculator • Mining Compensation Reports

CostMine Division - InfoMine Inc. 2008 - www.infomine.com