



An Introduction to the World of Development Banks

Workshop, May 2013

WU (Vienna University of Economics and Business)



(5) Development Banks and Social and Environmental Standards

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Outline

- ▶ (1) Orientation
- ▶ (2) Introduction:
 - ▶ What do we mean by E&S issues in projects financed by DFIs/IFIs?
 - ▶ Why DFIs/IFIs care about E&S?
- ▶ (3) How do DFIs/IFIs deal with E&S impacts and risks?
 - ▶ E&S standards
 - ▶ Applying E&S standards in project cycle
 - ▶ Limitations
- ▶ (4) Assessing, mitigating and monitoring E&S impacts -
Examples

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(1) Orientation

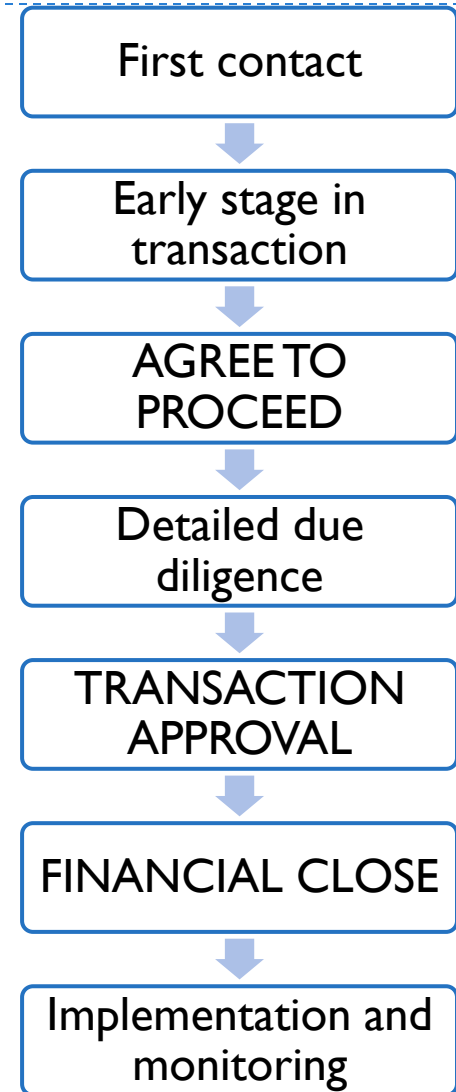
▶ Public Sector vs. Private Sector Finance

Instrument used by DFI/IFIs	Recipient of financing	Public Sector (government entity or SOE)	Private Sector (privately owned company)
Debt finance (loans)		includes a subsidy element depending on country income level and creditworthiness	mostly close to market terms
Equity investment		generally not used	precious risk capital with certain expected return for multiple use (revolving fund)
Grants		e.g. used to help generate bankable projects	used to improve development effects and decrease risk premium

(1) Private sector finance

- ▶ Demand based
- ▶ Private sector companies
- ▶ Projects need to be economically viable and have developmental effects
- ▶ Market rates/close to market rates
- ▶ Bank - client relationship

- ▶ Typical project „cycle“



(2) Introduction

What do we mean by E&S issues in projects financed by DFIs/IFIs?



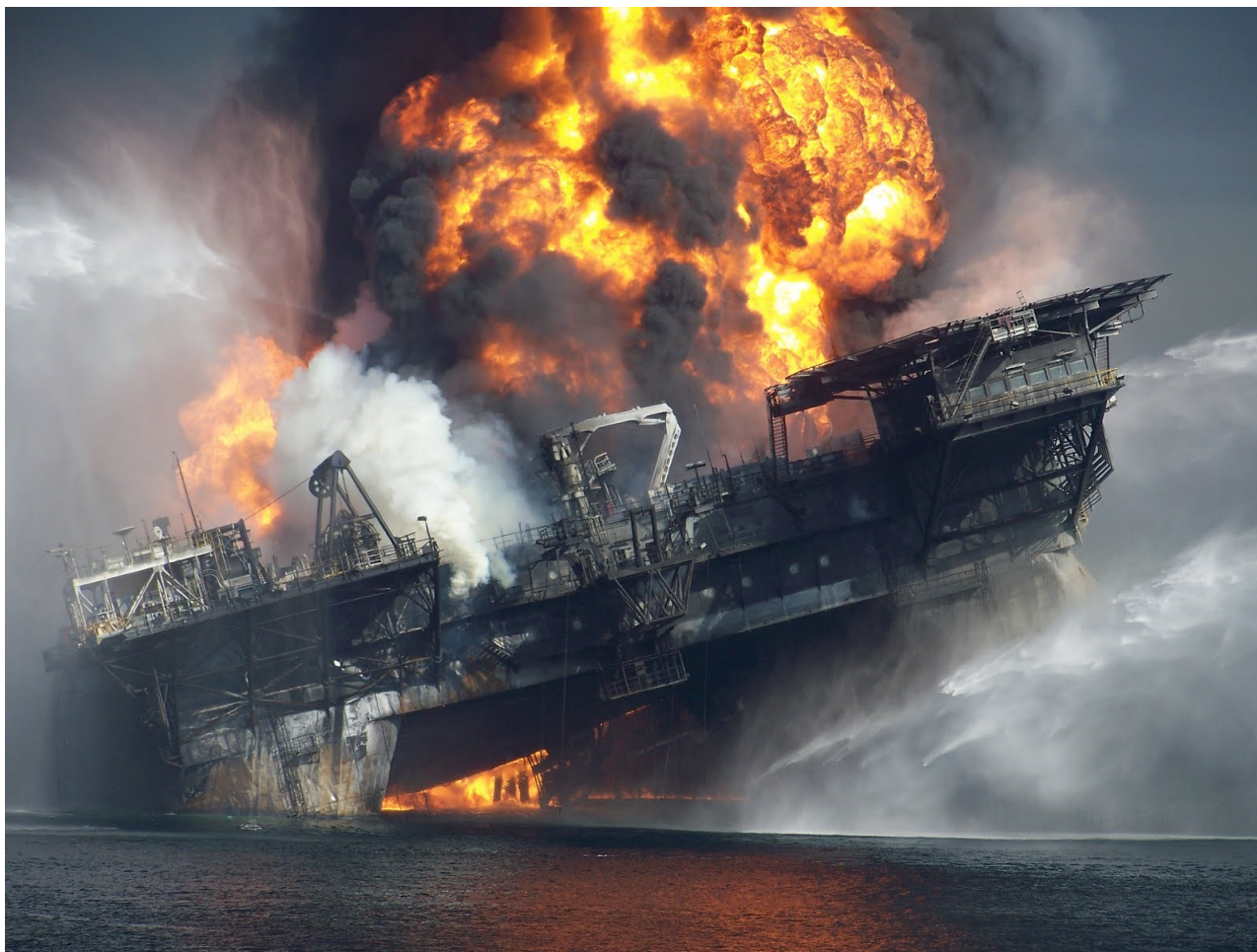
© Reuters

Safety: Buildings in the crowded city of Dhaka are sometimes erected without permission and many do not comply with construction regulations. Dozens died when a garment factory collapsed in the same area eight years ago



derstandard.at





Financial Times 2013: www.ft.com

BP faces 2,200 lawsuits over Deepwater Horizon disaster

By Guy Chazan

BP has been hit with 2,200 lawsuits linked to the 2010 Deepwater Horizon disaster as individuals, companies and government entities scramble to meet a three-year deadline for spill-related claims against the energy group.

COMPANI

World Bank's IFC suspends lending to palm oil companies

The World Bank has agreed to suspend International Finance Corporation (IFC) funding of the oil palm sector pending the development of safeguards to ensure that lending doesn't cause social or environmental harm, according to a letter by World Bank President Robert Zoellick to NGOs.

DATE
09/09/2009

AUTHOR
Mongabay.com



www.ilo.org (ILO Country Office for Indonesia)

Child labour in plantation

Document | 22 April 2010

1. Child labour in plantation in Indonesia at glance

It is estimated that over 1.5 million children aged between 10-17 years are working in the agricultural sector. The three provinces with the largest incidence of child labourers in agricultural sector are North Sumatra (155,196 children), Central Java (204,406) and East Java (224,075). Work in agriculture involves exposure

economist.com

Logging in South-East Asia

Rubber barons

The destruction of forests continues

May 18th 2013 | O PREAS, CAMBODIA | From the print edition

The report claims that VRG and another Vietnamese company, HAGL, are among the biggest land-grabbers, and have been logging illegally in both Cambodia and Laos. It says that, through Vietnam-based funds, the two companies have received money from Deutsche Bank, while HAGL also has investment from the IFC, the private-sector arm of the World Bank. The two Vietnamese companies have denied any wrongdoing. Deutsche Bank and the IFC say they are studying the findings.

The report says that the two companies have failed to consult local communities or pay them compensation for land they formerly used. The companies routinely use armed security forces to guard plantations. Large areas of supposedly protected intact forest have been cleared, in violation of forest-protection laws and “apparently in collusion with Cambodia’s corrupt elite”.

Global Witness is urging authorities in Cambodia and Laos to revoke the two companies’ land concessions, which cover 200,000 hectares and are held through a network of subsidiaries. It thinks both companies should be prosecuted.

Energy in Brazil

Power and the Xingu

A huge Amazon hydropower project shows how hard it is to balance the demands of the environment and of a growing and prospering country

Apr 22nd 2010 Rio de Janeiro | From the print edition

Like

109

Tweet

5

Indios besetzen erneut Belo-Monte-Baustelle

ANSICHTSSACHE 3. Mai 2013, 09:38

Rio de Janeiro - In Brasilien haben Indio-Gruppen erneut Teile der Baustelle für das riesige Wasserkraftwerk Belo Monte am Amazonas-Seitenfluss Xingu besetzt. Sie forderten die Aussetzung der Bauarbeiten, bis die Bewohner des betroffenen Gebietes angehört worden seien, teilte der mit der katholischen Kirche verbundene Indigene Missionsrat (CIMI) am Donnerstag mit. Der Rat sprach von 200, die Polizei von 50 Demonstranten.

Die Anlage im Bundesstaat Para soll etwa 29 Milliarden Reais (11 Mrd Euro) kosten. Mehr als 500 Quadratkilometer Land sollen überflutet werden. Mit einer Kapazität von 11.233 Megawatt soll es das drittgrößte Wasserkraftwerk der Welt werden - nach dem Drei-Schluchten-Staudamm in China und dem Itaipu-Werk an der Grenze Brasiliens zu Paraguay.

Andritz AG beteiligt

Die steirische Andritz AG ist mit einer Auftragshöhe von etwa 330 Millionen Euro an dem Projekt beteiligt und liefert Turbinen und Generatoren. Grüne und Greenpeace hatten das Engagement des österreichischen Unternehmens mehrfach kritisiert und dessen Ausstieg gefordert. (APA, 3.5.2013)

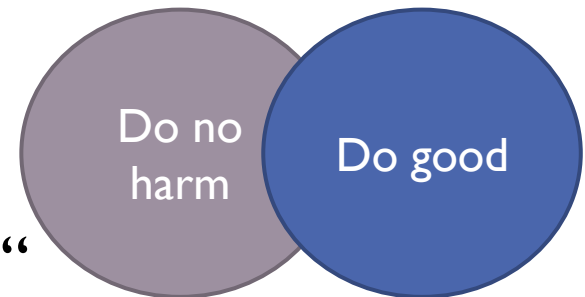
derstandard.at

(2) Introduction - E&S impacts

- ▶ Potential negative/adverse impact
- ▶ Impacts on the environment
 - ▶ pollution by project activity,
 - ▶ project location (e.g. biodiversity impacts),
 - ▶ use of resources (energy, water...)
 - ▶ etc.
- ▶ Impacts on people
 - ▶ Workers: wage, child labour; working conditions, health and safety etc.
 - ▶ people living around project location: health and safety; access to land, resources or cultural sites; etc.
 - ▶ Human rights

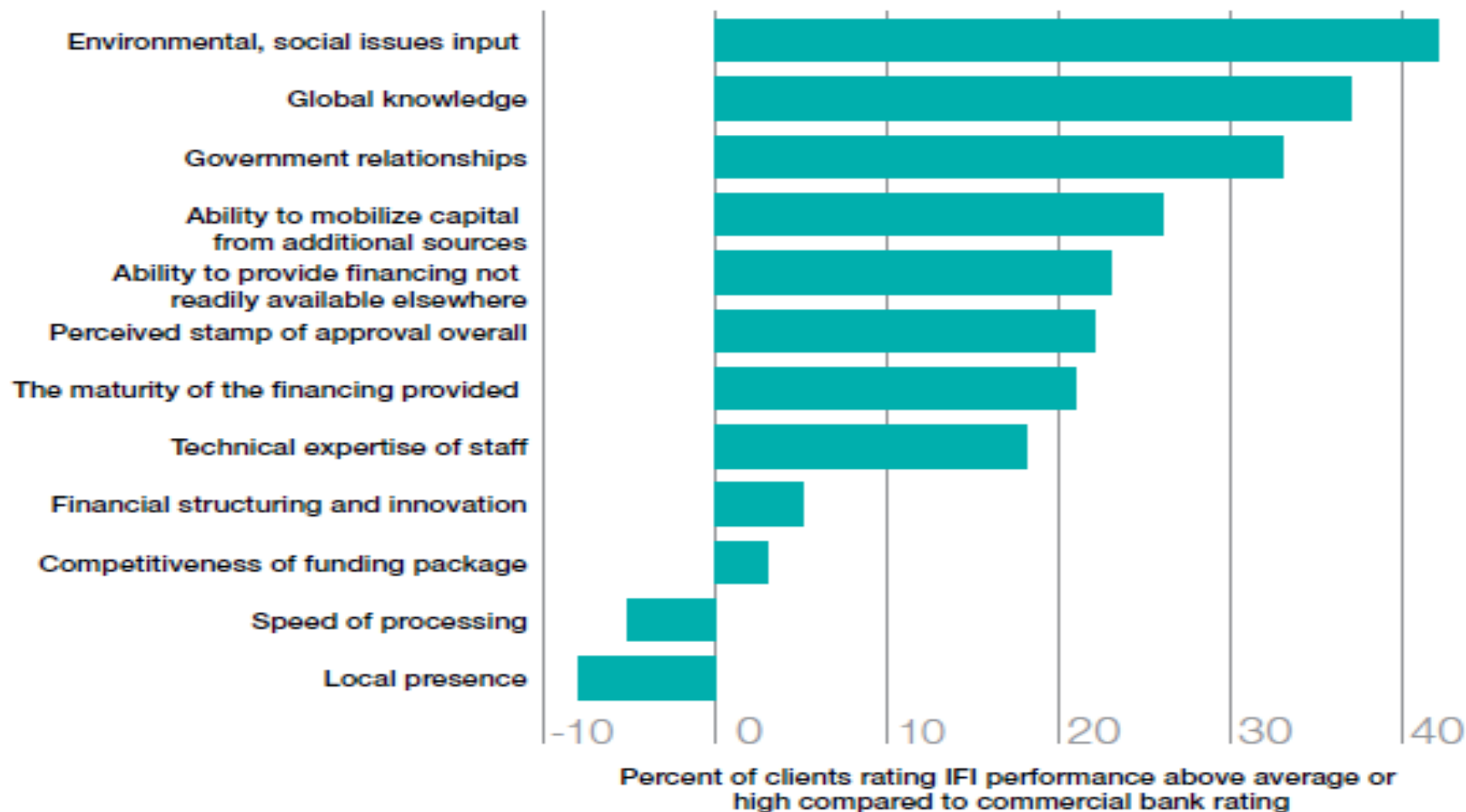
(2) Introduction: why DFIs/IFIs care about E&S

- ▶ Sustainability in private sector development finance:
 - ▶ Economic sustainability
 - ▶ Environmental sustainability
 - ▶ Social sustainability
- ▶ Mandates: „Do no harm“ and „Do good“
- ▶ Environmental and social risks:
 - ▶ Financial risk (can be turned into opportunity – business case)
 - ▶ Reputational risk
- ▶ No project/company without any impact on people and the environment



(2) Introduction: role of E&S

▶ DFIs/IFIs vs. Commercial Banks



Source: http://www.developmentandtheprivatesector.org/report/files/assets/downloads/IFI_and_Development_Trough_the_Private_Sector.pdf

(3) How do DFIs/IFIs deal with E&S impacts and risks?

- ▶ Define policy as basis
- ▶ Define knock-out criteria („no-go“)
 - ▶ Exclusion Lists
- ▶ Define standards projects need to comply with
 - ▶ one for all or risk dependent approach
 - ▶ define own standards or define guidelines to use existing standards
- ▶ Apply standards in projects:
 - ▶ Assess impacts and gaps to standards
 - ▶ Require compliance with standards, at least over time
 - ▶ Monitor implementation

(3) E&S Standards - Overview

Overall standards

To cover as many topics as possible and be applicable in projects of all sectors

Examples:

- IFC Performance Standards
- World Bank Safeguard Policies
- AfDB Operational Standards
- EBRD Performance Requirements
- IDB Safeguard Policies
- ...

SIMILAR BUT NOT THE SAME

Specific standards

To cover a certain topic, sector or topic within a sector

Examples:

- „Good International Industry Practice“ (GIIP)
- Labour standards (e.g. ILO Core Labour Standards, SA 8000)
- Technical environmental standards:
 - World Bank *General EHS Guidelines*
 - World Bank *Industry Specific EHS guidelines (over 60)*
- Hydropower sustainability assessment protocol
- ...

(3) E&S Standards – example: IFC Performance Standards (2012)

- ▶ PSI: Assessment and Management of Social and Environmental Risks and Impacts
- ▶ PS2: Labor and Working Conditions
- ▶ PS3: Resource Efficiency and Pollution Prevention
- ▶ PS4: Community Health, Safety and Security
- ▶ PS5: Land Acquisition and Involuntary Resettlement
- ▶ PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
- ▶ PS7: Indigenous Peoples
- ▶ PS8: Cultural Heritage

→ Includes references to other benchmarks

PS I	PS 2
	PS 3
	PS 4
	PS 5
	PS 6
	PS 7
	PS 8

(3) Applying E&S standards in project cycle

Screen for Knock Out criteria - Exclusion List

Classify transaction according to E&S risk

- Assess potential E&S impacts of project : avoid > minimize > mitigate (> offset)
- Assess client's willingness and capacity to mitigate these impacts
- Gap analysis to standards you want client to comply with
- Translate gaps into actions → Environmental and Social Action Plan (compliance not at project start, but during project implementation)

more risk →
more rigorous
assessment

more risk →
apply different
standards

approval

Agree E&S requirements (incl. action plan) with client and put them in contract
(define consequences in case of non compliance)

contract

Client implements and DFIs monitor agreed E&S actions and requirements

more risk →
monitoring
more closely

(3) Limitations

- ▶ **Limitations in standards**
 - ▶ Wording careful since minimum requirements
 - ▶ Project context important
 - ▶ Not all made for private sector (e.g. ILO Core Labour Standards)
 - ▶ „appropriate“/ „adequate“
⇒ judgement!
- ▶ **Limitations in DFI/IFI assessment & monitoring**
 - ▶ Scope of assessment
 - ▶ not „big brother“
 - ▶ Unforeseen impacts
- ▶ **Limitation in application by client**
 - ▶ Area of influence
 - ▶ Unforeseen impacts
- ▶ **Contract negotiation**

(3) Limitations – trade offs

- ▶ More factors to consider in a project than E&S
- ▶ Dealing with trade offs - examples:
 - ▶ High risk → large opportunities
 - ▶ E&S impacts vs. other positive developmental effects – examples:
 - ▶ potentially negative impacts on local level vs. positive effects on regional/national levels
 - ▶ Non-renewable energy
 - ▶ Labour intensive industries
 - ▶ Extractive industries
 - ▶ ...
 - ▶ Sovereignty of each country/society
 - ▶ Alternative scenarios

(4) Assessing, mitigating and monitoring E&S impacts - Examples

(4) Exclusion list - example

- ▶ No harmful or exploitative form of child labour



- ▶ No forced labour



(4) Assessing and mitigating impacts – social impact examples

▶ Working conditions

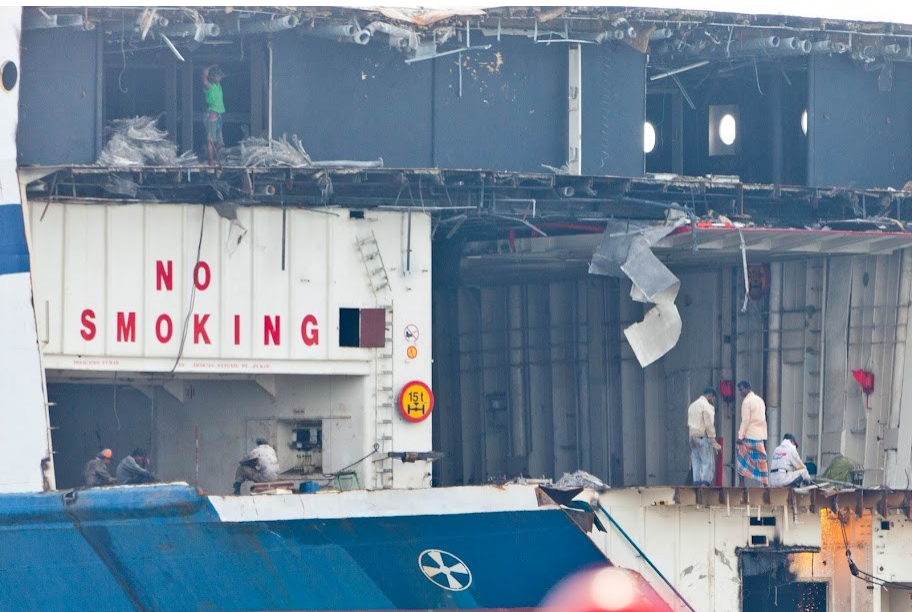


Wage
Working hours



▶ Working conditions - limits

<http://goo.gl/maps/kepqq>



Shipbreaking yard



(4) Assessing and mitigating impacts – social impact examples

- ▶ Health and safety – people *around the project*



(4) Assessing and mitigating impacts – social impact examples

▶ Resettlement

- ▶ Physical displacement: relocation or loss of shelter
- ▶ Economic displacement: loss of assets/access to assets or resources → loss of income/livelihood
- ▶ Voluntary vs. involuntary resettlement

▶ Community/stakeholder engagement

▶ Government-led resettlement

▶ Compensation

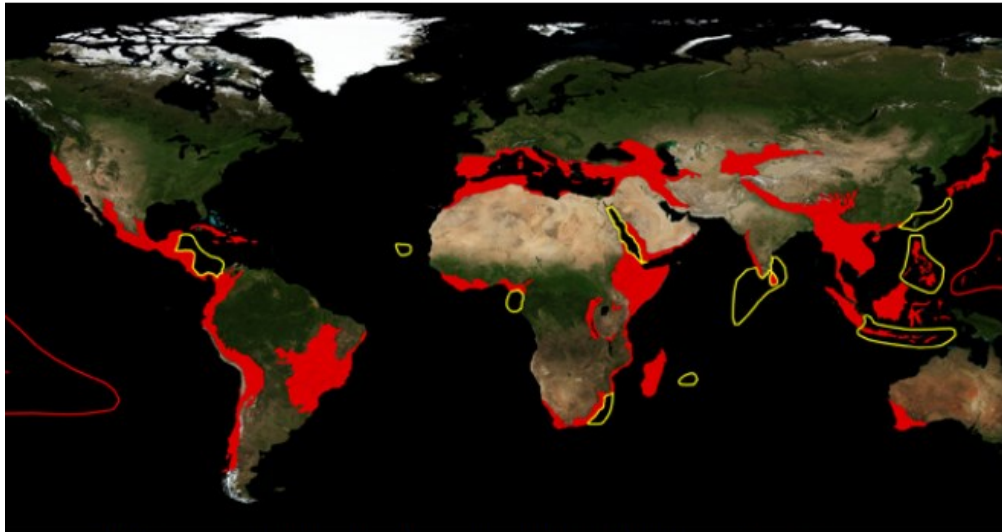
▶ Challenges - examples:

- ▶ What is a fair price?
- ▶ What is a company's influence?



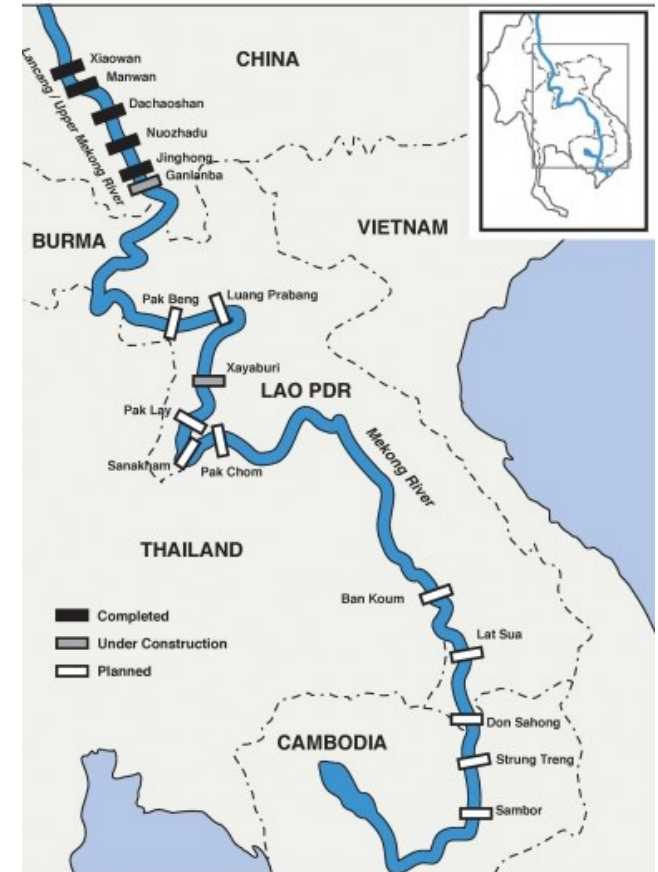
(4) Assessing and mitigating impacts – environmental impact examples

▶ Location location location!



Earth's terrestrial (red) and marine (yellow) biodiversity hotspots.
(global landcover map © ESA - MEDIAS France/Postel)

- ▶ Use of resources
- ▶ Waste management



Mekong Dams (www.internationalrivers.org)

(4) Assessing and mitigating impacts – environmental impact examples

▶ Animal species and ecosystems



www.worldwildlife.org

ROADS AND RAILWAYS

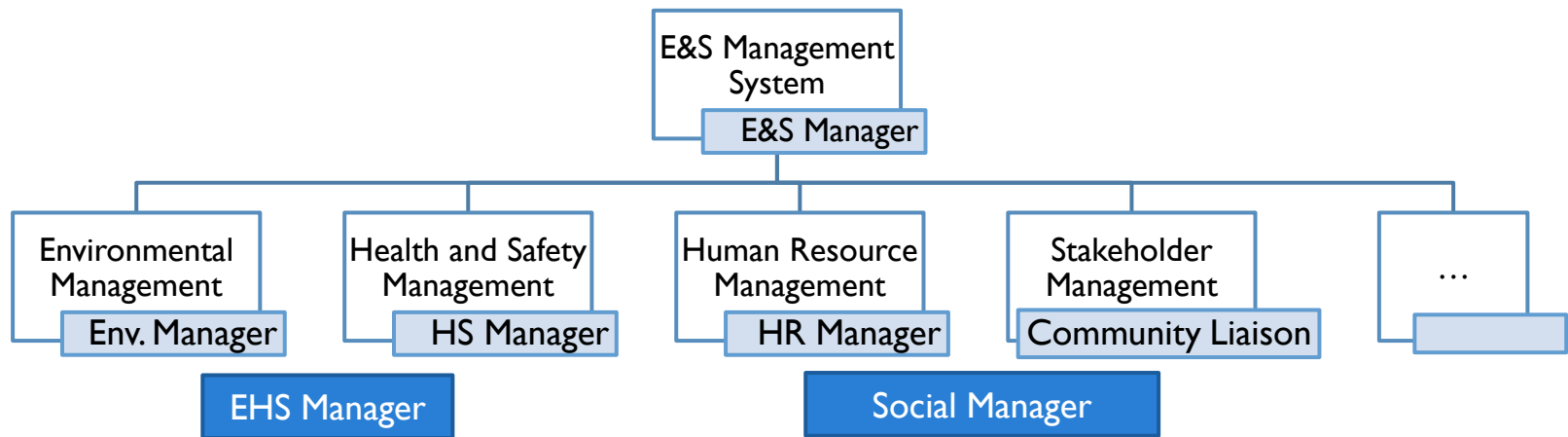
Roads and railways are necessary to move goods and people across distances, but they have long-lasting effects on the landscapes they cut through. They can fragment ecosystems and halt migrating animals in their tracks. Cars and trains may kill animals in their paths and bring noise and air pollution to previously undisturbed areas. And roads and railways can facilitate illegal logging and hunting by opening up regions long kept pristine by their inaccessibility.



Fish ladder built around a dam in the Pacific North West.
Harald Sund/Photographer's Choice/Getty Images

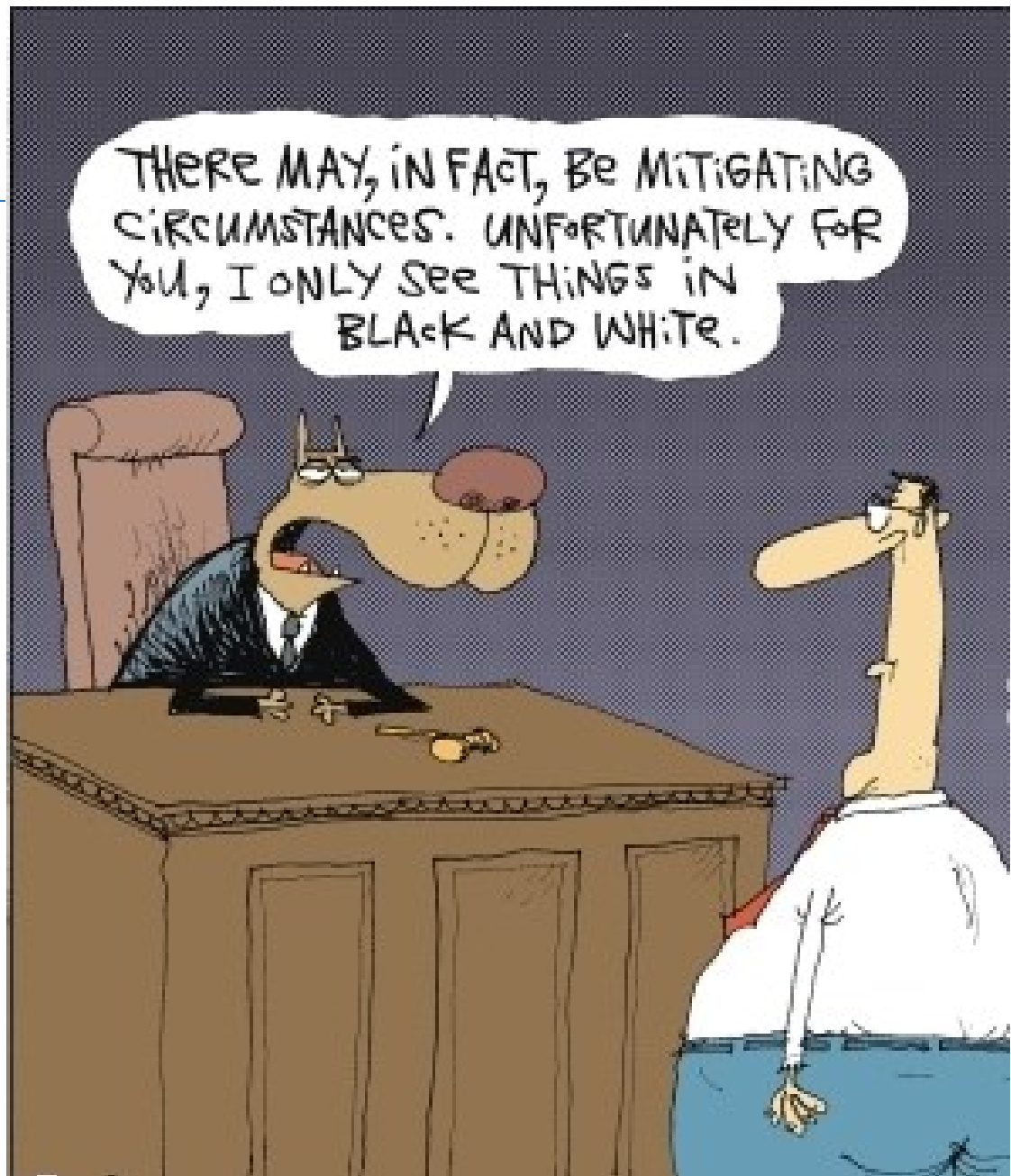
(4) Implementing an Environmental and Social Management System

▶ Management System



- ▶ Capacity, know how and training
- ▶ Embedding E&S management in company

Thank you
for your
attention!



Annex - Links

- ▶ Example for standard used in private sector finance:
 - ▶ [IFC Sustainability Framework](#):
 - ▶ Performance Standards (+ Guidance Notes)
 - ▶ Environmental, Health and Safety Guidelines
- ▶ Example for standard used in public sector finance:
 - ▶ [World Bank Safeguard Policies](#)
- ▶ Labour Standards:
 - ▶ ILO Core Labour Standards – [Ratification Country Table](#)
 - ▶ [Social Accountability \(SA\) 8000](#) – auditable labour standard
- ▶ Documentary on 5 heavy manual labour industries:
<http://www.workingmansdeath.at/index.html>





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