



# **Upstreaming IFC's Performance Standards into Strategic/Sectoral Environmental and Social Risk Assessment**

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# **DRAFT**

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## *Preamble*

**Agriculture can be defined as the science, art, or human occupation that shapes and transforms the land as well as its resources, plant or animal, into a productive system for the satisfaction of human needs. By essence, it requires land-use changes, consumption of natural and genetic resources, and various forms of energy including manpower. It has shaped social and cultural evolution of people into tribes, villages, communes and nations. As it is the ultimate source of food, it is cumulatively the ultimate basis for local to global food security. With the growing scale of some agri-projects and the escalating need to feed the planet, agricultural projects and agribusinesses represent the ground for accelerated significant social and environmental impacts.**

**The primary basis of agriculture is land, and therefore land ownership is a vital question in agribusiness. FAO Director-General Jacques Diouf, while recognising that foreign investment in least developed countries can make a true contribution to their growth, warns on land-grabbing and insists on the need for equitable implementation. According to the FAO, “In order for such investments to be economically, socially and politically sustainable, they should be based on balanced contracts and partnerships safeguarding the interests of all stakeholders,”<sup>1</sup>**

**How best to ensure that financial investment in agribusiness projects meet these requirements of sustainability is the general concern of this discussion paper.**

**The Agribusiness domain covers a myriad of commodities, production systems, a diversified natural resource supply-base and, especially considering the prominence of international trade, can involve complex supply chains. Subsequently, a variety of stakeholders are involved, from vulnerable groups as pastoral producers, to integrated operation owners, traders, standard associations, governments, NGOs and financiers.**

**UN organizations and agencies such as the Food and Agriculture Organization of the United Nations (FAO), the United Nations Environment Program (UNEP), the United Nations Conference on Trade and Development (UNCTAD), The International Labour Organization (ILO), the International Fund for Agricultural Development (IFAD), the United Nations Convention to Combat Desertification**

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<sup>1</sup> FAO Media Center: FAO heads warns on land-grabbing  
<http://www.fao.org/news/story/en/item/74229/icode/>

(UNCCD) and others, are essential players in the food security and sustainability agendas.

With respect to the scope of this paper, the World Bank Group and its branch, the International Finance Corporation (IFC) are the main actors of interest. The World Bank (WB) is involved in lending, and providing expertise and assistance to governments of developing countries around the world. The IFC finances private sector projects in developing countries. IFC also provides advisory services to support client engagement with smallholders at the project level and to support multi-stakeholder initiatives for the development of industry-wide voluntary standards at the sector level. Both share the common objective of reducing poverty by generating growth and income, as well as contributing to food security and ensuring sustainable use of all resources.

### *Objectives*

1. The agribusiness sector of IFC has undergone an exponential growth in recent years. The growth has resulted from an increase in the number and size of projects in agribusiness and in the agroindustrial sector. Among those projects in recent years, IFC's experience with land and sensitive land use issues has been rising as more and more large agribusiness or agro-industrial projects require deforestation, or acquiring long-term rights over large areas of land that involve controversial "land deals" with host governments.
2. These requirements in turn may raise a number of large scale environmental and social issues which extend beyond the immediate impacts of individual development projects. Examples of such issues are local ( and global) food security, customary rights on water resources, negative effects on smallholder agriculture, disempowerment, land ownership conflicts, and others. Moreover, a number of recurrent issues come to surface when different types of investments, or different sectors of investments, are interlinked by a profusion of successive projects.
3. While IFC has developed and implemented a world recognized set of Environmental and social Performance Standards (PS), these tend to be applied to projects individually as they are submitted, and the application of the Performance Standards cannot alone provide an overall sectoral view of agribusiness investment. Therefore, while the volume and scope of investment opportunities has increased, so has the need for efficient environmental and social assessment tools which would go beyond the project by project approach offered by the Performance Standards.

4. Upstreaming of potential environmental and social impacts to the assessment of larger issues is normally accomplished through tools such as Strategic Environmental Assessment, and related instruments such as Integrated Assessment and Sustainability Assessment. All of these have been developed for and adopted by state authorities as part of the national and regional planning processes under the purview of appropriate authorities; such tools have also been almost universally adopted by Development and Public Aid Agency in their effort to support and finance these government-run developments or development initiatives. However, while these efficient tools are quite adequate for state-level approaches, they are not tools which can be used directly by corporate entities, or project developers.

5. In contrast to Environmental Impact Assessment at the project level, Strategic Environmental Assessment (SEA) guides the planning at sectoral or regional levels, and provides advice on priority issues such as Land Use, Habitat protection, Food security, etc. To this end, the SEA exercise delivers clear guidance on future development in line with environmental and social safeguards at a higher level, and sets out a framework for later assessing individual projects, of whatever size, in a given sector or region. As the need to shift from a project-focused to a sector- and commodity-focused approach was progressively recognized, SEA was found to appropriately address issues raised by sectoral or regional development.

6. The question now arises of exactly how to upstream the Environmental and Social Performance Standards of IFC, from a project level to a strategic level in order to provide guidance and orientation at sectoral, regional, country-wide or international scales. This way, IFC can develop and master its various strategies, for instance the ongoing Agribusiness or Forestry Strategy, and acquire functional tools for implementing these on the ground or into lending decisions.

7. IFC's overall agribusiness strategic themes namely, i) supporting the global food security agenda; ii) supporting environments and activities aimed at pursuit of inclusive economic growth; and iii) promoting sustainable environmental and social practices, illustrate well major financial organizations' awareness of current environmental and social strategic issues emerging from the various agribusiness sectors as well as the tone of these institutions' response activities. The question arises directly: do the Performance Standards applied at project level achieve a due diligent approach to meet those strategies?

8. Recent development in risk-assessment tools, or in supply chain risk and management, are promising in terms of providing some upstream sector-wide vision for corporate or private developments projects; however some

additional work is needed to examine further ways to incorporate strategic tools and sector-wide assessment into those existing tools of risk assessment, and to develop further strategic tools for due diligence and assessment of projects at the sectoral or commodity level.

9. The objective of this discussion paper is to provide IFC with some elements for strategic, sector- and commodity-focused approach to environmental and social assessment of Agribusiness and agro-industrial projects, based on its existing set of Performance Standards and including some proofing of its recently developed risk-assessment tool.

10. The *Oakland Institute Paper* argues that multiple previous IFC investments and advisory services have led to increased flexibility in land acquisition for foreign investors to the detriment of local employment and livelihoods, and calls for increased accountability in ensuring rights of local people in IFC investment activities. The *Paper* also highlights the influence of the privatization of agriculture development on national regulations and strategies. Examples of how some of IFC Advisory Services and IFC's investment approach have framed national investment laws to allow for increased investor access to land are provided. The discrepancy between IFC Performance Standards and field results is also underlined and illustrates the still unexploited potential for benefit generation. It echoes the previously discussed argument for adjusting IFC's approach towards a more sector-level, thus facilitating more sustainable agricultural development strategies.

### *Setting*

11. In a climate of uncertainty and rising challenges, illustrated by the 2008 food and fuels' price spike, the 925 million people still undernourished in 2010 (FAO website), and the soaring effects of climate change, recent years have experienced a surge in agricultural investments in developing and emerging countries along with growing discussion regarding the role of large Agribusiness projects in meeting global sustainability goals.

12. Interest in farmland continues to rise as well as associated investments, with a marked prominence of large-scale land-acquisition projects in Africa. The WB *Rising Global Interest in Farmland* report notes an average annual expansion of global agricultural land of less than 4 million hectares before 2008, rising to approximately 56 million hectares worth of deals announced before the end of 2009.

13. Cumulative impacts of agricultural projects are significant sources of influence for the global sustainability picture, not only in quantitative terms (e.g. levels of pollution, natural resource consumption, land availability for

activities outside a project's focus), but also due to the momentum and direction they set for national strategies and development planning. As noted by the *World Development Report 2008: Agriculture for Development*<sup>2</sup>, growth in the agriculture sector has been three times more effective in raising the incomes of the poor than growth generated from other sectors. US\$14 billion annually is the estimate of required investment for meeting the needs of developing countries which suggests that not only public sector investments are needed but also private sector ones and these are likely to increase. Such a prominent presence of the private sector on the evolving map of agricultural land-use can only underline the potential for cumulative effects of private agri-projects, especially when these do not fall directly under a defined public strategy.

14. Various reports and assessments have identified unwanted trends in agricultural projects' effects<sup>3</sup>. Land-grabbing, loss of livelihoods, environmental damage and unsustainable use of natural resources are still major concerns in the Agrisector. Persisting hunger and poverty, in part due to lacking empowerment of smallholders, low productivity, and uneven downstream of positive spillover effects of investments, whether in socio-economic or food availability terms, fuel the debate around optimal approaches to agricultural sustainability.

15. As expressed by the recent *Oakland Institute Paper*<sup>4</sup> which calls for a re-positioning of financing organisations' strategies in the Agribusiness domain, or more broadly, as illustrated by the ongoing global dialogue surrounding the FAO, World Bank, International Fund for Agricultural Development (IFAD) and the United Nations Conference on Trade and Development (UNCTAD)'s current work on defining Principles for Responsible Agricultural Investment<sup>5</sup>, the unanimous position is that compliance with sustainability objectives requires additional attention to environmental and social risks inherent to agribusinesses in their broad *sector-wide* or *region-wide* setting.

16. While some environmental and social effects are more specific to certain Agri-sectors (e.g. waste production related to livestock, versus deforestation

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<sup>2</sup> *The World Development report 2008: Agriculture for Development* of the World Bank provides guidance on designing and implementing agriculture-for-development agendas supporting the fight against poverty and hunger.

<sup>3</sup> For examples of such reports refer to footnotes 2, 3, 5, 9, 10, 11.

<sup>4</sup> Referred as such (Oakland Institute Paper) in subsequent pages: *(Mis)Investment in Agriculture – The Role of the International Finance Corporation in Global Land Grabs*, Shepard Daniel with Anuradha Mittal, Foreword by Howard G. Buffett, 2010. The document underlines the need to challenge IFC's approach to agricultural development.

<sup>5</sup> These are detailed in *Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources*, extended version, A discussion note prepared by FAO, IFAD, UNCTAD and the World Bank Group to contribute to an ongoing global dialogue, 2010.

due to the expansion of certain plantations) or supply-chain segments (e.g. displacement of local communities for primary production mainly, and uneven wealth distribution along supply-chain), the main issues of concern arise in all sectors and have led to the identification of key objectives for the Agri-development domain. These have led to the formulation of Principles for Responsible Agricultural Investment which are discussed later on.

17. Other than raising productivity and wealth, key objectives for the Agri-development domain can be summarized as follows: Food Security, Equity in Land Acquisition and Land-Use, and Social and Environmental Sustainability. Also identified are some essential requirements to fulfill these objectives: Accountable, Responsible, Transparent and Inclusive Investment Environment and Processes.

18. While challenging, potentials of agri-investments such as inclusion of investment opportunities in national or local development plans, long-term benefits of agri-projects for local communities, increased smallholder involvement, and securing of the natural resource base for long-term and enhanced productivity, use of rational, sustainable and accessible energy sources, are yet to be fully exploited.

19. From a lending perspective, can a successful investment be limited to the demonstrated potential for a financial gain and profitability, if the latter's do not include proper attention to land-use rights, sustainable land management practices, transparent and equitable benefits to local population and the host country, etc..? In particular, the "land-grabbing" issue is worth reviewing in greater details as, whereas loss of biodiversity, pollution and irregular public consultation processes have been on the discussion table for a significant time, inequity in land-acquisition and land-use is being actively discussed at the moment. The 2009 *Land Grab or Development Opportunity?* paper<sup>6</sup> and WB Principles, both underline the primacy of legally recognising all rights and uses of land and resources, along with adequate public consultation, transparent transfer processes and fair compensation.

### ***Existing tools***

20. In order to address Environmental and Social risks related to agricultural projects, different guidelines, standards and tools are already in place, some of them being currently subject to review. Relatively new are the various voluntary commodity standards such as RSPO on palm oil, BCI on cotton, RTRS

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<sup>6</sup> *Land Grab or Development Opportunity? Agricultural Investment and International Land Deals in Africa*, FAO, IIED, IFAD, 2009.



on soy, BSC on sugar cane, etc (de Man) which provide best practices and certification systems.

21. In the financial sector standards, initiatives such as the UN Global Compact, the UNEP Finance Initiative and the Equator Principles and general Principle for Responsible Investments (de Man)<sup>7</sup> can set the stage to provide assessment processes for sustainable agribusiness investment. However, currently the most immediate tools available to IFC are : 1) its set of Performance Standards; 2) the World Bank and associates set of Principles for responsible Agro-Investments, and 3) the IFC Procedure for Rating and Assessing the Risk of Agribusiness Projects.

*1) IFC Performance Standards on Social and Environmental Sustainability (IFC PS)*

22. Through its *Policy on Social and Environmental Sustainability*<sup>8</sup>, IFC establishes its corresponding commitments and defines its requirement to use IFC Performance Standards. IFC PS define client roles and responsibilities for managing projects and requirements for IFC support, and have been applied by IFC since 2006 to all investment projects in order to minimize their impact on the environment and on affected communities. (IFC website).

23. IFC Performance Standards include (PS)<sup>9</sup>:

PS1: Social and Environmental Assessment and Management System

PS2: Labour and Working Conditions

PS3: Pollution Prevention and Abatement

PS4: Community Health, Safety and Security

PS5: Land Acquisition and Involuntary Resettlement

PS6: Biodiversity Conservation and Sustainable Natural Resource Management

PS7: Indigenous Peoples

PS8: Cultural Heritage

24. Following evidence of recurring issues with Agribusiness investments, critiques such as the *Oakland Institute Paper*, and as a result of increased awareness of gaps in the approaches to Agricultural development, IFC initiated

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<sup>7</sup> The 2010 discussion paper *Land Issues in Voluntary Standards for Investments in Agriculture* from Reiner de Man provides additional information on the consideration of land-use issues in voluntary standards.

<sup>8</sup> IFC Policy on Social and Environmental Sustainability can be found at [http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/pol\\_SocEnvSustainability2006/\\$FILE/SustainabilityPolicy.pdf](http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/pol_SocEnvSustainability2006/$FILE/SustainabilityPolicy.pdf)

<sup>9</sup> See IFC Performance Standards and Guidance Notes documents for further details at <http://www.ifc.org/ifcext/sustainability.nsf/Content/EnvSocStandards>

further work on its tools and approaches and global discussion around the Principles for Responsible Agricultural Investment took place.

**2) World Bank Principles for Responsible Agro-Investment (“Responsible Principles”)**

25. The WB, FAO, IFAD and UNCTAD have jointly participated in the elaboration of seven Principles for responsible agro-investment, reviewed in the *WB Rising Global Interest in Farmland* document<sup>10</sup> ; these lay the ground for discussion, especially with respect to their operationalisation. Private investment in the Agri-sector can lead to significant benefits for host countries such as increased employment, productivity, access to technology, etc. However, considerable risks and impacts can also stem from these investments, as mentioned before. Lack of adequate planning or feasibility assessments have also lead to unsuccessful projects resulting sometimes in negative outcomes without any economic or social benefits. Finally, adequate application of existing guidelines and standards for incorporation of environmental and social considerations in investments remains often limited. The principles listed below result from the attempt to identify essential guidelines for success in meeting sustainable objectives: *(WB paper)*

1. Respecting land and resource rights
2. Ensuring food security
3. Ensuring transparency, good governance, and a proper enabling environment
4. Consultation and participation
5. Responsible agro-investing
6. Social sustainability
7. Environmental sustainability

26. Ways to translate these principles into concrete actions for the various stakeholders remain to be determined. The document identifies three areas of importance for the next steps:

- 1) how agricultural investment can best contribute to development and poverty reduction national strategies, including the role of investment incentives;
- 2) which legal, regulatory and institutional changes are required in order to secure land rights, enforce rules and empower local stakeholders, and

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<sup>10</sup> The World Bank 2011 study *Rising Global Interest in Farmland, Can it Yield Sustainable and Equitable Benefits?* aims to overcome the information gap related to large-scale investments in farmlands in Developing countries.

3) how could the private sector incorporate social and environmental concerns linked to agricultural investments in the choice and implementation of projects.

***IFC Procedure for Rating and Assessing the Risk of Agribusiness Projects (IFC RA Tool)***

27. As an example of recent efforts for building sustainability across agri-sectors, the World Bank Group and IFC have elaborated a revised collaborative approach for engagement in the Palm Oil Sector<sup>11</sup>. In order to strengthen development impacts and mitigate negative effects of investments in the sector, this Framework and Engagement Strategy proposes increased collaboration and integration of both groups' activities as well as the use of IFC's new Risk Screening and Assessment tool for its investment assessments. *(Palm Oil Doc)*

28. This tailored procedure offers a tiered approach to rating the risks associated with investment applications or potential investment opportunities. It involves a country rating, followed by a sector and then project rating. The first two steps are meant to be higher level assessments whereas the project-level assessment allows for a more detailed review. Where ratings fall below the secure threshold, a risk determination process follows which takes into account the potential consequences of the investment and their likelihood. Potential for risk mitigation and subsequent impacts on the overall evaluation of the investment are also considered.

29. Finally, another example of IFC's current work on sustainability tools is its ongoing elaboration of impact indicators for sustainable land management (SLM). As changes in land-use are often central to IFC's interventions, these are meant to facilitate the measurement of the impact of IFC's activities in terms of sustainable land management (SLM). SLM is recognised as holding many potentials such as promoting long-term productivity, supporting essential ecosystem services, safeguarding cultural landscapes and factoring smallholder involvement in agricultural activities<sup>12</sup>.

***Comparative analysis***

30. In order to support the upstreaming of existing environmental and social risk assessment tools and a more sectoral or commodity-wide approach to

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<sup>11</sup> *The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector* 2011 document is the result of a 2010 stakeholder review aimed at identifying if the WBG could contribute to placing the sector on a more sustainable footprint.

<sup>12</sup> *Benefits of Sustainable Land Management*, UNCCD, 2009?

these assessments, various elements of IFC PS, the IFC RA Tool and the Responsible Principles are compared below.

31. Considering remaining challenges for the Agri-sector in achieving sustainability goals, it is of use to review how much the Responsible Principles are already reflected in the PS and RA Tool and to assess how much, if any, is still lacking. This review can also support future further integration of the principles into investment business cases and thus promote the implementation of the Responsible Principles.

32. First, similarities and differences of content/ perspective between the PS and Responsible Principles will be reviewed, followed by the examination of the use of the Responsible Principles' key themes and PS in the IFC RA Tool itself.

#### *Responsible Principles and IFC PS*

33. The WB Principles, as essential guidelines for any Agricultural Investment, consider Agribusinesses from a broader perspective: they provide strategic directions and highlight key elements that will influence sustainability outcomes. Project-specific examples are also used for concrete illustrations.

34. IFC PS on the other hand have been designed for a project-level use, keeping in mind broad sustainability objectives and IFC strategic themes. The rationale for determining similarities and differences between PS and Responsible Principles is to identify strategic elements already present in the PS (i.e. elements of this project level tool that are applicable to the sector-level). This has been compiled in the following Table where +, ++, and +++ indicate increasing levels of similarities, whereas brackets () indicate a weak link.

#### *Main findings*

35. The key objectives of ensuring equity in land acquisition and land-use and appropriate public consultation and involvement (Principles 1-4 mainly) are present in the IFC PS. PS5 and Principle 1 share a strong similarity, although Principle 1 underlines further the need to recognize all rights and uses related to land. The public consultation theme can be found in various PS and is included in Social and Environmental Assessments' methodology.

Table 1: Level of similarity and strategic component of the Responsible Principle (ordinate) present in the PS (abscissa)

IFC PS	PS1 Social and Environmental Assessment and Management Systems (S,E,A)	PS2 Labour and Working Conditions	PS3 Pollution Prevention and Abatement	PS4 Community Health, Safety and Security	PS5 Land acquisition and involuntary resettlement	PS6 Biodiversity Conservation Sustainable Natural Resource Mngt.	PS7 Indigenous Peoples	PS8 Cultural Heritage
Responsible Principles								
1. Respecting land and resource rights	+ Legal context of rights also in S,E,A	++ respect of rights			+++ Similar		+ fair negotiation	
2. Ensuring food safety	++ S.E.A approach recommended					(resilience of production techniques)		
3. Ensuring transparency, good governance and proper enabling environment	(transparency is part of S,E,A)	(non-discrimination)			Transparency ++ Procedures for land acquisition		(Non-discrimination)	
4. Consultation and participation	+ consultation part of S,E,A				++ Consultation Land transfer agreements		++ fair negotiation	+ consultation
5. Responsible agro-entreprise investing	++ Project analysis, due diligence similar to S,E,A	+ best practices, Law compliance						
6. Social sustainability	++ Direct reference to S,E,A principles	++ Benefit-sharing, non-discrimination		(Identify social risks)	++ fair compensation for change in livelihoods, economic displacement		+ Development benefits	+ Fair benefit sharing, culturally acceptable
7. Environmental sustainability	++ Direct reference to S,E,A		++			+++ Similar		

**36. The key objective of ensuring food safety (Principle 2) represents a gap in the IFC PS as it is not clearly referred to in any of them. Sustainable resource management, a component of Food Security, is covered in PS6, but Principle 2 approaches Food security from a more socio-economic perspective: it underlines the role of market focus (e.g. export vs. local use of the commodity) and potential irregularity of investments' downstream benefits for local communities.**

37. Principle 3, 4, and 5 together detail the need for Accountable, Responsible, Transparent and Inclusive Investment Environment and Processes. Principle 3 refers to the investment environment, specifically to the business, legal and regulatory components. Incentives for investment and how these can have sustainability effects are elements found only in the Responsible Principles. Principle 5 refers to best practices and international standards and as such is present in various PS. It also refers to the evaluation of economic feasibility and long-term economic benefits of investments, which could be incorporated more clearly in PS1 or is already approached by other IFC financial tools. Together, Principles 3 and 5 could be compared to PS1, which sets the necessary setting and is the foundation requirement to ensure good practices are followed and other PS are met.

38. Key objectives of social and environmental sustainability (Principles 5-6) are reflected in different specific aspects of social and environmental PS. However, the “Sustainability perspective” itself, which suggest a more long-term vision does not appear clearly except in PS6. This sustainability requirement is potentially the most difficult aspect to implement efficiently and calls for more attention.

39. Finally, some sub-themes present in both the Responsible Principles and the PS, and of sector-level relevance are: *Supply chain scope, Transboundary effects, Cumulative impacts of ongoing or future projects, Ecosystem services, Development opportunities and Certification schemes*. Again, these concepts, crucial to long-term sustainability are mentioned in the PS, without clear guidance on their implementation or when they are a priority.

40. Some differences can be explained, naturally by the distinct end-uses and scope of application as defined at the time of design of the PS versus the Responsible Principles, and by the difficulty of translating some themes into actual operational standards.

41. Overall, the main strategic components of the PS include: Land rights (and some of the related processes); environmental sustainability, SEA-type approach, public involvement, and equity concepts.

42. The main elements lacking, or that could be further underlined are: the broad environment of the project (investment incentives, responsible business-related criteria, transparent governance), food security perspective and inclusion of long-term sustainability objectives/in development plans.

## Responsible Principles and IFC PS in the IFC RA Tool

43. As described previously, the IFC RA tool presents a three-fold approach to risk assessment and specifically considers broader scope levels of assessments like the country and sector levels. As such, it presents the opportunity to integrate key elements of the PS standards as well as elements of the Responsible Principles. It is of interest to review broadly how the PS are used in the RA Tool rating parts and if strategic elements present in the tool reflect the Responsible principles.

Table 2 and 3: overview of the use of the PS, Responsible Principles

Criteria/Rating category of the RA Tool	Use of PS	Use of Responsible Principles
Country policy	All PS except PS1	P1, P7, P6
IFC Policy	X	P5? Needs (country level) (Food security (Princ. 2) only as a criteria for need for support)
Legal	All PS except PS1 (mostly country level) (3 references to PS5)	P1 – land acquisition, land issues, land claims (all levels) P3 - corporate governance (country /project levels) P 5 - compliance (all levels) P6- smallholders/social (all levels) P7 –Environmental (country level)
Infrastructure	(PS 4,6) (all levels)	P5 well done(all levels) (P6-7)
Labour	PS 2, 4 (project)	P5- planning (project level mostly) P6- Potential for Local benefits considered (project level mostly)
Threats	PS3, 5, 6 (PS8-culture aspect)  (sector-project levels mainly)	P1, 3- land reform, land disputes (country/project levels) P5 - Risks of success/not success/ (various levels) P5,7- complementarities of resources/ competition/other land -uses (sector-project levels) (P6 culture aspect)
Market	X	P 5 (P2- export/internal consumption considered/rating not exactly same perspective as P2) (just sector levels for both principles)
Client	X	P 5 planning (project level)
Community	PS7 (project level)	P4, 6 local consideration/social change, acceptance (project level) P5 planning (project level)
Resources	Some elements of PS3,6 (sector-project)	P5 planning (sector-project level) P7 Long-term climate (project)/P7 some elements (sector-project)

Table 3:

L: legal, P: policy, T: Threats, I: Infrastructure, La: labour. C:

Community, R: Resources, (): weaker link

\* Smallholders working organisations

PS5: only PS represented in Legal at all levels

No direct representation of PS1

Threats: PS3-5-6 mainly (other business-related threats not PS-related)

Social PS: more in Labour-Infrastructure (more descriptive)

PS	Country	Sector	Project
1	x	x	x
2	L, P, I	(L)*I	I, La
3	L, P	T, R	T, R
4	L, P, (I)	I	La, I
5	L, P, T	L	L, T
6	L, (I), P	T, R, (I)	(I), T, R
7	L, P		L, C
8	L, P, (T)		L, (T)(C)

## ***Main findings***

- 44. Considering the Use of Performance Standards in the Risk Assessment Tool**
- a) All specifics of PS are well represented in the Regulatory sections of the Country rating in the RA tool
  - b) There is a greater focus on Land-use/rights (PS5) in the Legal and Threats sections and at all rating levels.
  - c) Sustainable Natural Resources Management (PS6) aspects are threaded through the Resources and Threats sections mostly.
  - d) PS 3,5,6 recur in the Threat criteria.
- 45. At all levels, the Infrastructure/Labour/Threats/Resources sections provide a good understanding of the potentials for success of the investment, needs and risks. However, the assessment of compliance with the PS is not as directly illustrated. The scaling system in combination with certain more obvious sustainability criteria define the sustainability score of the object under assessment, with an average rating of 3 as a minimal score.**
- 46. The concept of supply chain is present, however not as prominent and specifically reviewed as the Responsible Principles might recommend.**
- 47. Considering the Use of Responsible Principles in the Risk Assessment Tool**
- a) The systematic consideration of Infrastructure, Threats, Labour and Resources elements at all rating levels and the description of limiting factors, risks and potentials provided, reflect well the Responsible agro-enterprise investing principle (Principle 5 -due diligence). The IFC Policy, Market and Client Sections are specific to the investment context and also illustrate this Principle.
  - b) The inclusion of the PS in various Regulatory sections reflect in part the recommendation to ensure sound governance (Principle 3). Assessment of governance and compliance with laws are also included as specific sub-criteria across some rating levels. As such, part of these strategic elements which are not included in the PS has been incorporated into the IFC RA Tool.
  - c) However, the concepts of transparent governance and proper investing environment (including “proper investment incentives”) could be integrated further.
  - d) As in the PS, the Land use/rights (Principle 1) is present in all rating levels.
  - e) The Food security theme (Principle 2) is not clearly incorporated, at least not from the Principles perspective.
  - f) Relatively few long-term aspects can be found illustrating the difficulty of incorporating Social And Environmental Sustainability Principles (6,7).



48. It is worth noting that the PS altogether determine criteria (e.g. prevent excessive pollution levels) in order for a project to meet sustainable objectives as well as mechanisms (e.g. management program, Environmental and social assessment, having an HR policy, etc.) to ensure that the criteria are respected. In order to meet sustainability objectives at the sector level, first the criteria can be somewhat adapted (e.g. incorporating further the Responsible Principles), and secondly, the mechanisms ensuring the implementation of these criteria can be determined: a legal environment reflecting the criteria and best practice standards defined for a sector, are examples of such mechanisms. Part of the “criteria adaptation” and their “consideration in the legal environment” fortunately is already incorporated in the RA Tool.

### *Overall discussion*

#### Risk perception

49. The PS cover mainly environmental and social risks of Agri-projects and the IFC RA Tool further adds some investment-specific risks such as political instability, regulatory environment, and potentials and limitations in terms of resources, labour and infrastructure.

50. The Responsible Principles provide for more details when considering risks external to the project such as lack of sound governance, proper investment incentives, transparency, etc.

51. The Food Security (2) and Sustainability Principles (6,7) also refer to risks such as discontinuity of production and lack of downstream benefits to local communities or integration of investments to local or national development plans. These various aspects do not seem to be covered by the PS and appear to be only partially covered by the RA tool.

52. The focus on Land-related issues and rights in the RA Tool appears very relevant considering the current growing concern in this field.

53. The IFC RA Tool uses a risk assessment matrix divided into 1) Legal, 2) Reputation/Image and 3) Environmental/Social consequences. The E/S consequences are defined in terms of compliance levels with the PS which implies that any upstreaming of the PS will be reflected in the RA Tool. Considering the diversity of E/S risks and the difficulty of effectively promoting the long-term sustainability component of investments, maybe this last category of consequences could benefit from further attention. The fact that the "consequence table" can apply to any criteria having an unacceptable rating (country, sector, or project level), allows for a better grasp of the

potential for cumulative effects than simply ensuring that all financed projects meet the PS.

54. Differences in risk perception can influence institutions' performance assessments and subsequently (re)design of assessment tools. The Oakland Institute Paper highlights the need for more inclusion of poverty and hunger indicators in performance and projects' impacts assessments, which underlines once more the under-represented sustainability component. Readjusting the investment criteria to be prioritized or weighing differently the different criteria could be explored as a mean to allow better representation and facilitate achievement of broad sustainability objectives.

#### **Business case for Agri-Investment**

55. Further inclusion of the sustainability component in the IFC RA Tool could add to the elaboration of business cases for investment, already well situated by the investment-specific items. Broad benefits of adopting the Responsible Principles could also provide additional arguments.

56. Finally the IFC Rating Tool with his three-fold approach offers the potential for identifying complementarities (of interest for the business case) between a geographic region and a specific sector. Further combination of the country-sector matrices of IFC tool could therefore be explored. Adding a Resource section to the Country assessment could also enable the identification of some complementarities/conflicts between various agri-sectors or their relative ranking for a determined country.

#### ***Conclusive statement and recommendation***

57. Overall , the strategic analysis of the Performance Standards, and the comparative analysis of those present and missing strategic components with two other sets of instruments designed to ensure sustainable investments lead to the following general conclusions:

Comparison with the Principles for responsible Agro-Investments provide for a metering of strategic gaps in the sole use of PS.

While very useful and operational at project level, the main strategic elements lacking at the PS level, or that could be further underlined are: the broad environment of the project (investment incentives, responsible business-related criteria, transparent governance), food security perspective and inclusion of long-term sustainability objectives/in development plans.

**Comparison of the Risk Assessment tool with the Principles for responsible Agro-Investments provide for a metering of the efficiency of the tool**

While quite operational upstream from projects, the RA tool seems to cover only partially all of food security issues, discontinuity of production and lack of downstream benefits to local communities or integration of investments to local or national development plans. Furthermore, there is a need to further cross matrix the sector and national components of capable governance for sustainable development and responsible agribusiness investments.

At the present time, it is doubtful for instance that neither PS or RA could completely recognize or handle all issues of a "land grabbing" case in agribusiness investment.

58. A number of specific issues could be tagged on to PS analysis and RA tool and be specific for Advisory services of IFC in their assistance to countries. Such issues are allowing for a better understanding of the supply chain context (including typical employment structure along the supply chain for a sector and environmental issues related to segments other than production), further inclusion of long-term sustainability aspects; providing a wider Food security perspective: identify ways to combine in the assessment criteria the Market focus, SLM, and Empowerment of local communities themes more efficiently.

59. An effort should be made to gather objective criteria's to define a gradation of acceptable to best practices in line with the PS for each agri-sector and situate specific country's objectives for a commodity.

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