Environmental and Social Risk Management of Financial Institutions at the IFC

Report to the Board of Executive Directors from the Committee on Development Effectiveness*

Meeting of September 4, 2013

The Committee on Development Effectiveness (CODE) met to discuss the IFC presentation on Environmental and Social Risk Management of Financial Institutions at the IFC (CODE2013-0034).

The Committee welcomed IFC Management’s presentation. Members appreciated IFC’s comprehensive response to CODE’s request for an Action Plan for managing environmental and social risk in financial intermediary operations, taking into account the CAO’s findings and the Committee’s comments.

Members acknowledged the complexity of IFC investments in third party financial intermediaries and the associated environmental and social risk, especially vis-à-vis sub-clients. Members agreed that it is important to clarify that IFC’s role is to ensure that its direct clients have and adhere to a sound environmental and social management system (ESMS). Members were broadly supportive of IFC’s risk-based supervision approach in relation to financial intermediaries. They emphasized the need to have a robust implementation and supervision system in place, with the right tools and instruments as a preemptive measure, in order to ensure continual improvement in managing risk and to achieve the intended development objectives. They noted Management’s clarification that, although IFC’s environmental and social (E&S) framework was not originally designed for financial intermediary investments, the updated Sustainability Framework and Performance Standards of 2012 has helped IFC manage the relevant risks and promote good practices. In this regard, the Committee supported the action items proposed in IFC’s Action Plan, including: continual improvement of the implementation of environmental and social standards; formal, ongoing stakeholder outreach and dialogue; and enhanced advisory services. Members appreciated the collaboration and engagement between the CAO and Management to develop indicators for monitoring IFC’s Action Plan in response to CAO findings.

Members commended the IFC for significant recent progress in engaging with civil society and other stakeholders, including domestic and international financial institutions. They encouraged IFC to continue the effort of information sharing and engagement with IFC’s stakeholders, especially those in developing countries, to increase awareness of IFC’s financial intermediary operations and to continue to build trust and reinforce accountability.

Members concurred with IFC’s approach to scale up its advisory services paradigm, and to provide capacity support to financial intermediaries at all levels with a view to enhancing their capacity to implement IFC’s environmental and social standards. They agreed that emphasis should be placed on capacity building at the client level. Members encouraged the IFC to consider developing a contingency mechanism and clear protocols to mitigate and remedy environmental and social risk arising from non-conforming implementations, to be supported by a clear and transparent communication strategy.

Some members commented on the culture of risk and encouraged IFC to develop sharper guidelines on how risks are defined and monitored in the IFC. Members underscored the significance of providing IFC staff with continual training and support with respect to the application of E&S standards.

* This report is not an approved record.