



INTERNATIONAL FINANCE CORPORATION
WORLD BANK GROUP

Measuring Sustainability in Private Sector Investments

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UNEP FI, Global Roundtable, Tokyo

IFC Private Sector Arm of the World Bank Group

Mandate

Promote Private Sector Development in emerging markets

- ▶ Provide loans and equity for viable projects
- ▶ Mobilize capital from other sources
- ▶ Provide advisory services

Characteristics

- ▶ Participates only in private sector ventures
- ▶ Shares same risks as other investors
- ▶ Invests in equity
- ▶ Has market pricing policies
- ▶ Does not accept government guarantees
- ▶ Is profit-oriented

Beneficial Role

- ▶ IFC presence reassures
 - Foreign investors
 - Local partners
 - Governments
- ▶ Honest broker/neutral partner
- ▶ Measure of political risk cover
- ▶ Catalyst for other investors and lenders

WHAT

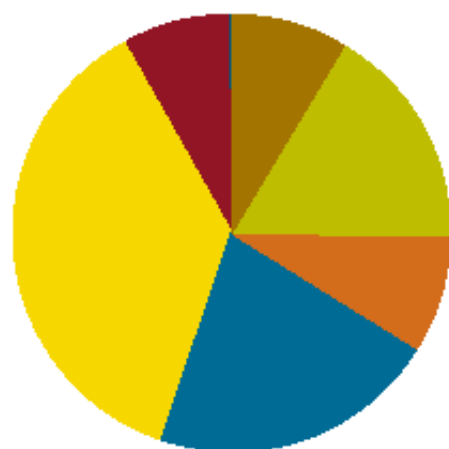
COMMITMENTS BY SECTOR, FY03*

	\$ millions	%
Financial**	2,529	50.2
Transportation, warehousing, and utilities	562	11.2
Oil, gas, mining, and chemicals	383	7.6
Food and beverages	378	7.5
Industrial and consumer products	246	4.9
Nonmetallic mineral product manufacturing	194	3.9
Information	182	3.6
Accommodation and tourism services	98	1.9
Wholesale and retail trade	93	1.8
Textiles, apparel, and leather	91	1.8
Agriculture and forestry	66	1.3
Construction and real estate	50	1.0
Primary metals	50	1.0
Plastics and rubber	47	0.9
Health care and education	37	0.7
Pulp and paper	23	0.5
Professional, scientific, and technical services	7	0.1
TOTAL COMMITMENTS	\$ 5,033	

* All commitment data include guarantees and risk management.

** Includes finance, insurance, and collective investment vehicles.

INVESTMENT PORTFOLIO BY REGION (for IFC's Account)



As of June 30, 2003

REGION

Sub-Saharan Africa	1,442
East Asia and the Pacific	2,791
South Asia	1,447
Europe and Central Asia	3,581
Latin America and the Caribbean	6,145
Middle East and North Africa	1,326
Global	45
TOTAL	\$ 16,777

The scenario.....

- The way the world is changing is making environmental, social and corporate governance issues inescapable for more and more companies (our clients)
- Whilst the safeguard policies and environmental guidelines applied by IFC can be improved –they provide a good risk management framework (now embedded in the Equator principles)...but..

The objective.....

- ▶ As a private sector development institution we needed to be able to capture and measure the broader ‘sustainability impact’ of our investments
- ▶ We needed to better understand the business case for our clients in emerging markets for improved performance in those areas which contribute to more sustainable outcomes

The challenge.....

- ▶ Need to define the component parts of 'sustainable performance' at the Company/project level
- ▶ Absence of a measurement framework which could be applied across a range of sectors, and countries and which recognized varying levels of performance and impact
- ▶ Need for a database of cases from which to correlate the relationship between sustainable performance and business benefits

Clarifying what is valued: an additionality framework

1. Management Commitment and Governance

- i. Environmental management and Social Development commitment and capacity
- ii. Corporate Governance
- iii. Accountability and Transparency

2. Environment

- i. Process Eco-efficiency and Environmental Footprint
- ii. Product/Service environmental performance

3. Socio-Economic Development

- i. Local economic growth and partnerships
- ii. Community Development
- iii. Labor force health , safety and welfare

Evaluating Sustainability Performance

Performance Level

Developmental Benefits

Level 1: Complies with IFC and national minimum standards

- ▶ The economic activity conducted by the project or company is in accordance with accepted national and international (IFC) standards for mitigating potential environmental or social harm stemming from the activity.

Level 2: Added environmental, social, or corporate governance value

- ▶ Handling of environmental/social issues materially exceeds minimum standards.
- ▶ In so doing, the project or company creates local or global benefits in terms of reduced waste, emissions, or use of natural resources of its economic activity or helps spread the benefits accruing from its economic activity to the local community or to groups which often fail to benefit from such activity.

Level 3: High performance

- ▶ Corporate governance practices are good enough to affect positively views of investors about investing in the country.
- ▶ Handling of environmental and social issues materially exceeds WBG minimum standards. Formalization of practices or other steps enable good practices on environmental, social and corporate governance issues to leverage change broadly within a region, a sector, or a supply chain.
- ▶ Economic activity beyond the firm is influenced in the direction of improved resource intensity and inclusion of new beneficiaries.

Level 4: Leadership

- ▶ Corporate governance attributes of the project are sufficiently advanced so that a demonstration effect is possible.
- ▶ Company is actively engaged on many fronts in the dissemination of best practice.
- ▶ Economic activity well beyond the firm is influenced in the direction of improved resource intensity and inclusion of new beneficiaries
- ▶ Firm is seen as a global corporate governance leader, with wide influence.

A Measurement Framework

Defining the Company/Project level activities which lead to more sustainable outcomes and measuring their impact



Measuring Sustainability
A Framework for Private Sector Investments

The Business Case — Drivers for Performance

- ▶ Reduced costs and productivity gains from increased efficiency
- ▶ Revenue growth and market access
- ▶ Access to capital
- ▶ Risk management and license to operate
- ▶ Human Capital
- ▶ Brand value and reputation

The Business Case holds in Developing Countries

Good economic,
environmental,
social and
corporate
governance
performance
creating financial
value for firms

Developing Value

The business case
for sustainability in
emerging markets



Highlighting business benefits and risks
from social and environmental improvements
based on 240 cases from Africa, Asia, Latin
America and Central & Eastern Europe

Developing Value — Business Case Matrix

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access	Yellow	Yellow	Orange	Yellow	Orange	Yellow	Yellow
	Cost savings & productivity	Yellow	Yellow	Orange	White	Yellow	Yellow	Orange
	Access to capital	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
	Risk management & license to operate	Yellow	Orange	Yellow	Yellow	Yellow	Yellow	White
	Human capital	White	Yellow	White	White	Yellow	Yellow	Orange
	Brand value & reputation	Yellow	Yellow	Orange	White	Yellow	Yellow	Yellow



Business Case — A Virtuous Circle

Improved emissions standards led to quantifiable gains in health, forestry, agriculture, soil degradation, tourism, etc.

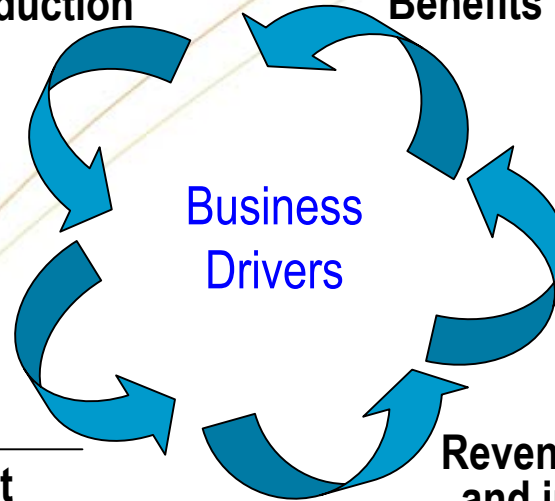
Cement — Estonia

Proactive company response to HIV/AIDS issues and in the development of local sourcing and SME development leads to reduced costs and enhanced local service capacity.

Gen Mfg — Mozambique

Risk Reduction

Corporate Benefits



Cost Savings

Revenue gains and improved market access

Improved access to capital markets and lower cost of capital

Sustainable fruit production led to an international certification improving market access and reducing the cost of capital

Agribusiness — Ecuador

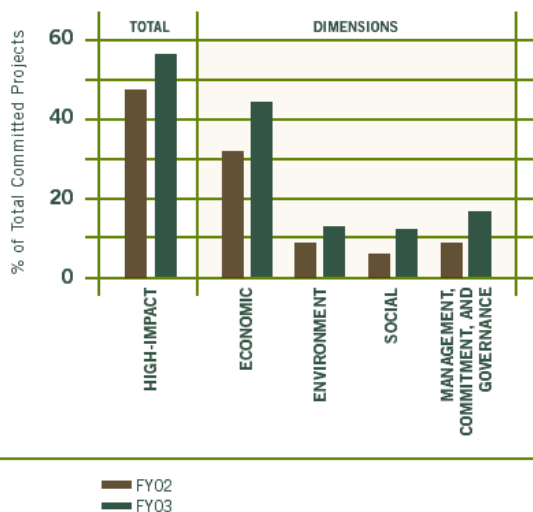
Local community take part in a sustainable forest management operation and have long-term contracts. They are supported by strong EMS and occupational health program. The project is regarded as a standard setter nationally.

Paper — China

Adoption of standards well ahead of national requirements led to 'first move' access into export markets; riding home market downturn.

Building prods — Czech Rep

IFC INVESTMENT IN HIGH-IMPACT PROJECTS, FY02-FY03



ENVIRONMENTAL AND SOCIAL STAFF AND TRAINING, FY 2003

Total IFC staff	2,113
Staff dealing with environmental and social issues in daily operations ^a	1,128
Staff in specialized environmental and social business unit	86
Staff receiving training in environmental and social issues during fiscal 2003	480
Training time in environmental and social areas (hours)	1,940

Note: Numbers reflect recommendations for management performance indicators made by the EPI-Finance 2000 project on sustainability reporting for the financial services industry.

^a Includes mainly investment officers, portfolio officers, strategists, and attorneys.

BREAKDOWN BY ENVIRONMENTAL AND SOCIAL CATEGORY OF FY 2003 COMMITMENTS

	CATEGORY			
	A	B	C	FI
Number of committed projects	3	80	48	62
Amount committed (\$millions)	169.74	1,586.30	899.74	1,143.33

Note: Category A projects have significant potential for adverse environmental or social impacts; Category B projects have less significant or more manageable impacts; Category C projects have minimal or no environmental or social impacts; and financial intermediaries are treated separately.

SNAPSHOT OF INVESTMENTS BY REGION, FY 2003

REGION	COMMITTED FINANCING IN FRONTIER COUNTRIES, ^a % OF DOLLAR VOLUME	NUMBER OF COMMITTED PROJECTS ^b	NUMBER OF HIGH-IMPACT PROJECTS
Sub-Saharan Africa	82.05	17	5
East Asia and the Pacific	29.83	25	13
South Asia	97.41	16	12
Europe and Central Asia	9.87	52	23
Latin America and the Caribbean	11.80	51	34
Middle East and North Africa	35.98	16	12
Global	n.a.	2	2
TOTAL		179	101

^a To be considered "frontier" by IFC, a country must be either low income, as defined by the World Bank, or high risk, with a rating of 30 or below or unrated according to *Institutional Investor*.

^b Numbers differ from IFC totals because only first-time commitments are counted in high-impact calculation.

STAFF TIME DEVOTED TO ENVIRONMENTAL AND SOCIAL REVIEW, FY 2003

ACTIVITY	STAFF HOURS
Appraisal of new projects	24,510
Supervision of portfolio projects	12,879

Note: Staff performed upfront appraisal and follow-up supervision work for over 1,000 individual investment projects in fiscal 2003. In all, 18.7 staff-years were devoted to environmental and social review of investment projects in 2003.

GROWTH OF ENVIRONMENTAL AND SOCIAL STAFF AND SPENDING, FY94-FY02

YEAR	NUMBER OF STAFF	SPENDING (\$millions) ^a
1994	8	2.0
1996	21	3.5
1998	42	5.1
2000	70	9.3
2002	84	11.7

^a 2002 dollars

IFC identifies, tracks, and assesses new investment commitments that have positive high impact in corporate governance, economic, environmental, and social dimensions.

What next ?

- ▶ Trajectory is towards increased focus on financial institutions
- ▶ Movement towards convergence of standards amongst commercial Banks (Equator).
- ▶ IFC increasingly integrating sustainability criteria into its incentives, business strategy and culture, bringing value to its clients and partners
- ▶ Continue to build the sustainability/business case relationship
- ▶ Review of the measurement framework based on IFC and others experience