

## BP 4.03 - Performance Standards for Private Sector Activities

These procedures were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

BP 4.03  
May, 2013

1. This BP sets out the environmental and social review<sup>1</sup> procedures (“*ESRPs*”) to be followed for a Bank<sup>2</sup> supported Private Sector Activity for which the WB Performance Standards apply in accordance with [OP 4.03](#). Section A covers general requirements for all such activities; Section B covers additional requirements for activities that do not involve financial intermediaries (“*FIs*”); and Section C covers additional requirements for activities that involve FIs.

### A. General Requirements

*Differences in Bank and Private Entity Approaches to the Scope, Timing and Milestones of Private Sector Activities and their Development*

2. Since the timing of the Bank’s initial involvement in a Private Sector Activity often occurs after the Private Entity has been awarded a concession or made key business decisions relating to the Private Sector Activity, it may be necessary for the Bank to:

- (a) adapt rapidly the scope of the environmental and social review for the Private Sector Activity, as well as take into account the timing and key milestones of the Private Entity’s preparation of the Private Sector Activity; and
- (b) review any approved permits, authorizations, and environmental and social management plans for consistency with the requirements of the WB Performance Standards, and to inform the action plan required pursuant to paragraph 9 of this BP.

*Involvement of IFC and/or MIGA*

3. If the Private Sector Activity involves potential support by a WB Group Entity, the Bank shares information regarding environmental and social aspects of the activity with the WB Group Entity, in accordance with its policy on Access to Information.

4. When a WB Group Entity has carried out or is carrying out environmental and social due diligence work for the Private Sector Activity under its environmental and social due diligence procedures, the Bank may choose to rely on such due diligence work for purposes of determining whether or not the Private Sector Activity has been prepared in accordance with the WB Performance Standards. In case of such reliance, the Bank does not require the WB Group Entity to follow or have followed the procedures set forth in this BP, nor is the Bank required to undertake the environmental and social review work undertaken, or to be undertaken, by the WB Group Entity. The Bank may also choose to rely on the WB Group Entity’s project implementation support activities during the Bank’s implementation support. Any such reliance by the Bank, whether during preparation or implementation support, is, however, subject to the pre-condition that the Bank has concluded written arrangements with the WB Group Entity designed to ensure that the Bank is kept adequately informed on an ongoing basis of: (a) the status of the Private Entity’s compliance with its environmental and social requirements; and (b) the consistency of the implementation of the Private Sector Activity with the WB Performance Standards.

*Screening and Categorization*

5. The Bank screens the Private Sector Activity in order to determine the nature and extent of the environmental and social assessment needed, based on the type, location, sensitivity, and scale of the activity, as well as the nature and magnitude of its potential impacts. This screening also identifies any additional information required to complete the Bank’s environmental and social review and determine whether to support the activity. The findings of

this screening are summarized in the documentation for the concept decision point (including the Integrated Safeguards Data Sheet (“ISDS”).

6. The Private Sector Activity is categorized by the Bank as Category A, B, C, or FI, depending on the nature of the activity and financing mechanism, as follows:

(a) **Category A:** Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented;

(b) **Category B:** Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;

(c) **Category C:** Business activities with minimal or no adverse environmental or social risks and/or impacts; or

(d) **Category FI:** The activity involves support, through a FI, of initially unspecified subprojects that may result in adverse environmental or social risks and/or impacts.

The type of instrument used to identify and assess environmental and social risks may vary in accordance with the nature of the potential risks and impacts.

#### *Specific Provisions*

7. At the conclusion of the environmental and social review, the Bank prepares the appraisal stage ISDS. The legal agreements with the Bank for the Private Sector Activity include undertakings, as relevant, to: (a) implement the Private Sector Activity in accordance with the ESMS (as defined below); (b) carry out the action plans referred to below in paragraphs 9, 11 and 12; (c) in relation to non-FI Private Sector Activities, prepare and furnish the AMR as provided in paragraph 16 below; and/or (d) in relation to FI Private Sector Activities, provide reporting to the Bank on the implementation of the ESMS as referred to in paragraph 23(d) below.

### **B. Detailed Procedures (other than when Financial Intermediaries are involved)**

#### *Environmental and Social Information Requirements and Review*

8. *General Requirements.* The Bank undertakes a detailed review of the Private Entity’s environmental and social management system (“**ESMS**”) and environmental and social impact assessment and any related documentation. During the review, the Bank requests clarification or additional information as needed to address any deficiencies identified in the documentation, or other concerns. A visit to the project site during preparation is mandatory for all Category A Private Sector Activities.

9. The purpose of the environmental and social review is to determine whether the ESMS and the design and proposed implementation of the Private Sector Activity are consistent with the WB Performance Standards. If they are not, further processing requires the Private Entity to develop a time-bound action plan acceptable to the Bank to address any deficiencies and ensure such consistency.

10. The Bank requires the Private Entity to engage with affected communities through disclosure of information, consultation with and informed participation by them, in a manner commensurate with the risks to, and impacts on, the affected communities. Factors to be considered by the Bank include: the procedures and requirements established under national and local environmental laws and policies for environmental permitting, and local social and cultural conditions that may constrain certain forms of public consultation and disclosure.

11. *Expansion; Modernization.* If the Private Sector Activity involves expansion and/or modernization of facilities, the environmental and social aspects of both existing and proposed new facilities are reviewed by the Bank. The Bank requires the Private Entity: (a) to complete an environmental and social audit of the existing operation or facility; and (b) depending on the results of the audit, to carry out a time-bound action plan to bring the existing operation into a status consistent with the applicable WB Performance Standards within a reasonable period of time.

12. *Privatization.* If the Private Sector Activity involves a privatization, the Bank requires the Private Entity: (a) to engage an independent consultant to conduct an environmental and social audit of the facilities; and (b) depending on the results of the audit, to carry out a time-bound action plan to bring the existing facilities into a status consistent with applicable Bank Performance Standards within a reasonable period of time.

#### *Environmental and Social Review Summary*

13. For each Category A and each Category B Private Sector Activity, upon a determination that the activity is designed and will be implemented in a manner consistent with the WB Performance Standards, the Bank prepares an environmental and social review summary (“**ESRS**”). The ESRS consists of: (a) a brief description of the activity on which the environmental and social review is based; (b) a list of key environmental and social issues, and categorization by the Bank; (c) key sources of information for the environmental and social review; (d) a summary of WB Performance Standards triggered; and (e) a brief summary of the key findings of the review.

14. When the Bank and a WB Group Entity support the same Private Sector Activity, the Bank collaborates with the WB Group Entity in the preparation and disclosure of a single, World Bank Group ESRS and supporting documentation. If no WB Group Entity is supporting the activity, the Bank transmits the draft ESRS to the Private Entity and requests its review of, and permission to post, the ESRS, at the InfoShop and the Bank’s local Public Information Center (“**PIC**”). Upon receipt of written permission from the Private Entity, the Bank discloses the ESRS at the InfoShop and its local PIC. If the Private Entity does not provide its permission, the Bank does not continue processing the Private Sector Activity for Bank support.

#### *Disclosure of Environmental and Social Assessment Documents*

15. For each Category A and each Category B Private Sector Activity, the Bank requires the Private Entity to disclose and maintain on the activity’s or Private Entity’s website, if one exists, the environmental and social assessment prepared for the activity for a minimum period beginning no later than disclosure of the ESRS by the Bank and for as long as the Bank is providing implementation support to the Private Sector Activity. The link to the website is identified in the ESRS. Alternatively, if no such website exists, the Bank requires the Private Entity to permit the Bank to disclose the environmental and social assessment at the InfoShop and in the Bank’s local PIC along with the Bank’s ESRS. Specific minimum times for disclosure prior to Board presentation are the same as those governing Bank guarantees.

#### *Implementation Support*

16. Throughout the period of the Bank’s implementation support/supervision of the Private Sector Activity, the Bank requires the Private Entity to furnish to it an annual monitoring report (“**AMR**”) acceptable to the Bank summarizing the Private Sector Activity’s consistency with the WB Performance Standards, and identifying any environmental or social issues that arise during implementation and how they have been addressed. The Bank carries out site visits or takes other measures as necessary to verify the information provided in the AMR.

### **C. Detailed Procedures for a Private Sector Activity involving Financial Intermediaries**

#### *Responsibilities*

17. If the Private Sector Activity involves a FI, the FI is required by the Bank to:

- (a) develop and operate an ESMS that is commensurate with the level of social and environmental risks in its portfolio, and prospective business activities;
- (b) apply relevant aspects of WB Performance Standard 2 to its employees; and
- (c) ensure that all subprojects supported by the Bank comply with applicable national and local laws and regulations.

18. The Bank requires FIs whose portfolio and/or proposed business activities present moderate to high social or environmental risks (i.e., Category FI-1 and FI-2, as described below) to ensure that any such activities supported by the Bank are operated in a manner consistent with the WB Performance Standards.

19. In order to appropriately identify the environmental and social risks related to proposed business activities under the Bank-supported Private Sector Activity, the Bank reviews the existing portfolio and/or proposed business activities of the FI to identify risks, and assesses whether the ESMS for the Bank supported Private Sector Activity is appropriate for managing those risks.

#### *Screening and Categorization*

20. If Bank support to an FI is earmarked for a specific Private Sector Activity, the Bank decides the appropriate category based on the specific activity for which it is earmarked, and the Private Sector Activity is governed by the procedures outlined above in Section B.

21. Category FI Private Sector Activities are further sub-divided as follows:

- (a) FI-1: when the FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to a proposed subproject with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented;
- (b) FI-2: when the FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, subprojects that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of subprojects with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented; and
- (c) FI-3: when the FI's existing or proposed portfolio includes financial exposure to subprojects that predominantly have minimal or no adverse environmental or social impacts.

#### *Environmental and Social Requirements and Review*

22. In reviewing the adequacy of the FI's ESMS, the Bank determines whether the ESMS is appropriate to the FI's risk profile, by considering whether:

- (a) the policy statement incorporated in the ESMS describes specific objectives, metrics, and aspirations that the FI has set with regard to its environmental and social performance, and is endorsed by the FI's senior management;
- (b) organizational capacity, responsibilities, and accountability within the FI organization are described;
- (c) procedures are in place for screening and assessing risks and impacts of subprojects or individual loan transactions; and
- (d) procedures are in place for monitoring environmental and social performance of the FI's portfolio of subprojects and providing periodic progress reports to FI senior management.

In addition, the Bank assesses systems or procedures for training and ensuring awareness of the FI's investment, legal, and credit officers regarding the FI's ESMS.

23. Upon determination that the ESMS is appropriate to the risk profile of the FI's portfolio, the Bank approves the ESMS in a written memorandum. The memorandum consists of:

- (a) a brief summary of the findings regarding the risk profile of the FI's portfolio;
- (b) a description of the ESMS and its appropriateness;
- (c) a brief summary of the FI's capacity to implement the ESMS;
- (d) recommended specific requirements to be included in the legal agreements for the Private Sector Activity regarding the periodic reporting to the Bank by the FI on the implementation of the ESMS; and
- (e) recommended language for the environmental and social impacts sections of the project documents.

#### *Disclosure*

24. For Category FI-1 and FI-2 Private Sector Activities, the Bank requires the FI to disclose through the FI's website, if a website exists, and to permit, in writing, the Bank to disclose at the Bank's InfoShop and local PIC, the following elements of the FI's ESMS:

- (a) the FI's policy statement which describes specific objectives, metrics, and aspirations that the FI has set with regard to its environmental and social performance;>
- (b) the FI's procedures for screening and assessing risks and impacts of subprojects or individual transactions; and
- (c) after Bank review, the summary of the environmental assessment that is required for any subproject considered high risk in accordance with the ESMS.

25. In addition to disclosing specified information provided by the Private Entity, the concept stage and appraisal stage ISDSs are prepared and disclosed by the Bank as the source of summary information on the Bank's findings regarding environmental and social issues for Category FI Private Sector Activities.

26. For Category FI-1 and FI-2 Private Sector Activities, the Bank requires the FI to furnish to it, throughout implementation, an annual environmental and social performance report (“**ESPR**”) that summarizes the status of implementation of the ESMS by the FI. To determine the effectiveness of an FI’s ESMS, the Bank periodically reviews the process and the results of the social and environmental due diligence conducted by the FI for the subprojects supported by the Bank. The Bank periodically reviews a sample of the subprojects with significant environmental and social risks. Bank implementation support may include visits to the FI, as well as to recipients of FI loans/investments, particularly for high risk subprojects. The frequency and focus of supervision visits is commensurate with the identified risks.

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1. For the purposes of this BP, “environmental and social review” refers to the due diligence activities carried out during project preparation by Bank staff, as well as review of reports and other information obtained during supervision and monitoring activities by Bank staff.
  2. In this BP, the terms “Bank”, “WB Group Entity”, “financing”, “Private Sector Activity”, and “Private Entity” have the meanings set forth in [OP 4.03](#).