

INTERNATIONAL FINANCE CORPORATION

Guidance on integration of environmental & social considerations for use by Private Equity Funds

Stage	Environmental & Social Procedure
Initial deal identification	<p>1. Screen the proposed investment for potential environmental & social issues at an early stage:</p> <ul style="list-style-type: none">• check that the company's operations are not included on the Exclusion List• assign an Environmental Category (A, B or C):<ul style="list-style-type: none">• Category C: activities which typically have little or no environmental impact.• Category B: activities for which the environmental & social impacts can be readily predicted, prevented and/or mitigated. Typically does not need a detailed expert appraisal, but Fund Manager should take active steps to verify the company's environmental, health & safety (EHS) and social status and conformity with IFC's applicable requirements. Expert second opinion or limited review may be advisable.• Category A: activities which, due to their inherent complexity and characteristics, have the potential to cause significant environmental & social impact and will probably require detailed environmental & social appraisal by independent experts.
Introductory Deal Memorandum ("two-pager")	<p>2. Under the heading "Environmental & social Issues", provide a short (1-2 paragraph) statement addressing the following points:</p> <ul style="list-style-type: none">• conformance with the Exclusion List• Environmental Category (A, B or C) and potential/known environmental & social status/issues• proposed environmental & social due diligence (see Steps 3 and 4)
Internal due diligence	<p>3. Internal environmental & social due diligence actions depend on the level of risk and case-specific circumstances. Typically:</p> <ul style="list-style-type: none">• Category C: Ask the company to warrant that it has all relevant EHS permits and is in compliance with the applicable National Environmental and Social Laws and regulations and (if applicable) the IFC Performance Standards.• Category B: (1) Verify (by means of document inspection and/or discussions with the relevant authorities) that the company has all relevant EHS permits and is in compliance with applicable National Environmental and Social Laws and regulations. (2) If applicable, check that the company's activities are consistent with the IFC Performance Standards. (3) Investigate and resolve any specific issues of concern. Certain (relatively straightforward) actions may need to be agreed with the company as (pre-) conditions of investment. If there are issues outside the Fund Manager's competence, an independent expert may be required to provide a second opinion or undertake a limited review.• Category A: Determine the scope of work for a Environmental & social Audit (brownfield projects) or Environmental & social Impact Assessment (EIA) (greenfield projects) by independent consultants (see Step 4) and discuss logistical arrangements.
External due diligence	<p>4. Typical requirements for external environmental & social due diligence are as follows:</p> <ul style="list-style-type: none">• Category C: Not normally required.• Category B: If necessary, an independent expert or consultant may be needed to provide a second opinion or undertake a limited review of specific issues. Terms of Reference should be determined on a case-specific basis. A letter report is normally sufficient.• Category A: Environmental & social Audit or SEIA by independent consultants and review by IFC. The consultant's report and other relevant information must be provided to IFC no later than 30 days prior to the proposed date of approval.
Term Sheet/Negotiation	<p>5. The Term Sheet should include standard general conditions regarding compliance with applicable National Environmental and Social Laws and regulations. If internal and/or external environmental & social due diligence has identified any specific issues of concern, appropriate corrective action must be negotiated with the company. In some cases, this may require preparation of and agreement to a detailed Environmental & social Action Plan, typically based on the recommendations of the SEIA. Reference to such measures should be included in the Term Sheet. If the costs of the necessary environmental & social action are significant, they will require careful consideration within the context of the company's business and financing plans.</p>

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Investment Proposal	<p>6. A brief summary of the relevant environmental & social issues should be included in the Investment Proposal for consideration by the Investment Committee. This may be 1-2 lines in the case of a straightforward deal or 1-3 paragraphs if the situation is more complex. This section should briefly describe:</p> <ul style="list-style-type: none"> • the Environmental Category assigned to the investment (see Step 1); • Environmental & social due diligence approach and findings; • agreed solution to any issues arising; • any issues which remain unresolved and require consideration by the Investment Committee/Advisory Board.
Investment Agreement	<p>7. In line with the Term Sheet, the Investment Agreement (or equivalent instrument) should include appropriate environmental & social clauses. This may include:</p> <ul style="list-style-type: none"> • A general environmental warranty/covenant that the company is currently in compliance with the applicable National Environmental and Social Laws and regulations and (if applicable) any IFC Performance Standards, and will remain in compliance for so long as the Fund is a shareholder; • For investments classified as Category A or B, the Agreement should also contain an undertaking by the company to provide the Fund with an annual report on its EHS and social status. The format of this report should be decided on a case-by-case basis: in straightforward cases, it may be sufficient to obtain a short letter representing that the company remains in compliance and has not experienced any material incidents. In more complex situations (such as Category A projects and/or where the Fund's investment is conditional on an Environmental & social Action Plan), a detailed report may be required. • Any specific conditions decided on a case-by-case basis. In particular, if the Fund's investment is conditional upon the implementation of an Environmental & social Action Plan, this undertaking should be clearly set out in the Investment Agreement and the Plan itself should be included in the Agreement as an annex.
Portfolio management and value-addition	<p>8. It is important to maintain an appropriate level of oversight for as long as the Fund is a shareholder. This is in order to periodically confirm that the company continues to meet the Fund's environmental & social requirements and expectations. In addition, it may be necessary to monitor the progress of a Environmental & social Action Plan. Environmental & social issues should be given due consideration during routine investment supervision activities (particularly site visits) and appropriate notes should be kept on file. If applicable, annual environmental & social reports should be obtained from the company and follow-up action taken as appropriate.</p>
Investment Disposal	<p>9. Environmental & social issues should be given early consideration prior to the Fund's exit from the investment, as new investors (particularly strategic investors) are also likely to be interested in the company's EHS performance and environmental & social risk status. Although the foregoing procedures should reduce the risk of unexpected problems, it may be desirable to obtain additional assurance about the company's readiness to withstand close scrutiny by a potential new investor. In certain cases, a pre-divestment environmental & social audit may be useful to determine whether there any potential issues requiring attention prior to disposal. Positive audit findings can also be used to provide new investors with objective information to support a favorable asset valuation.</p>
Reporting to IFC	<p>10. The Fund must provide an Annual Environmental Performance Report to IFC, using the pro forma provided by IFC. The report provides a brief review of the environmental, health & safety and social status of the Fund's investments and any issues or problems arising.</p>