

Approach Paper for the Update of IFC's Sustainability Framework

For Public Disclosure*

**The Approach Paper for the Update of the Sustainability Framework was endorsed by IFC's Board of Directors on January 10, 2025. This disclosure does not contain information pertaining to Board deliberations and relating to corporate administrative matters in line with the Access to Information Policy.*

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Acronyms and Abbreviations

AfDB	African Development Bank
ADB	Asian Development Bank
AIP	Access to Information Policy
AIIB	Asian Infrastructure Investment Bank
CAO	Office of the Compliance Advisor Ombudsman
CSOs	Civil Society Organizations
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
E&S	Environmental and Social
EMDE	Emerging markets and developing economies
ESF	Environmental and Social Framework (IBRD/IDA)
FCS	Fragile and Conflict-Affected Situations
FI	Financial Intermediary
GBV	Gender-based Violence
GIIP	Good International Industry Practice
GNs	Guidance Notes
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
MDBs	Multilateral Development Banks
MIGA	Multilateral Investment Guarantee Agency
PCM	Private capital mobilization
PPP	Public-private partnerships
PSs	Performance Standards
SEAH	Sexual Exploitation, Abuse, and Sexual Harassment
SMEs	Small and medium-sized enterprises
WBG	World Bank Group

Executive Summary

- i. **Sustainability has always been central to IFC and has evolved into a core element of its mission as it seeks to realize the World Bank Group's (WBG's) vision of a *world free of poverty on a livable planet*.** The evolution of IFC's current Sustainability Framework is critical to realizing the WBG's updated vision and maintaining IFC's leadership position as a standard setter for E&S risk management in emerging markets and developing economies (EMDE).
- ii. **IFC is committed to improvement.** In updating its Sustainability Framework, IFC will integrate lessons learned since 2012 from IFC's environmental and social (E&S) specialists, clients, and other practitioners who apply the Performance Standards (PSs), as well as insights from the Independent Evaluation Group (IEG) and the Compliance Advisor Ombudsman (CAO), including the lessons learned from CAO compliance investigations. IFC recognizes that improvement will require not only reflecting the lessons learned that IFC has gathered but also listening to the ideas of external stakeholders, and IFC is committed to a robust process of stakeholder engagement for the update of its Sustainability Framework.
- iii. **The PSs are a global benchmark for E&S risk management in EMDE, and many stakeholders will have important contributions to make to the Sustainability Framework update.** The update will not only need to consider IFC's evolving operational context and E&S risk management needs, but also the implications for other stakeholders that have adopted the PSs or aligned around the PSs. In addition, IFC's past and present clients, co-financiers and mobilization partners, government agencies, academia, and civil society organizations (CSOs) will have valuable experience and new ideas to contribute to the update process.
- iv. **The update provides IFC with an opportunity to develop and adopt an E&S policy framework reflecting a fit-for-purpose approach commensurate with the scale and complexity of IFC's financial products and portfolio, capable of addressing complex emerging E&S risks and global challenges, such as biodiversity loss and ecosystem degradation, and aligned with the WBG evolution.** An updated Sustainability Framework will build on recent measures undertaken by IFC to strengthen accountability and will enhance IFC's E&S risk management through the evolution of its well-established risk-based approach for products.
- v. **IFC plans to focus on the following eight key considerations as part of the update:** (i) integrating lessons learned into the Sustainability Framework and developing a process for more timely incorporation of future lessons; (ii) reaffirming IFC's thought leadership on sustainability; (iii) expanding the use of differentiated E&S approaches to reflect the evolution of IFC's business model and product offerings; (iv) clarifying IFC and client responsibilities under the Sustainability Framework; (v) analyzing the potential for interoperability with, and reliance on, other standards; (vi) aligning with the WBG evolution, including the "One World Bank Group" approach, while preserving a private sector focus; (vii) enhancing consistency with other corporate initiatives and commitments; and (viii) designing an updated Access to Information Policy (AIP) that reflects IFC's new transparency commitments and outlines a renewed vision of transparency.
- vi. **This approach paper lays out IFC's proposed plan, methodology, and timeline for the overall path forward for the Sustainability Framework update.** The update will require, and be informed by, the completion of a thorough benchmarking of standards and practices, assessments of thematic areas, analysis of financial and advisory products and markets, and consultations with internal and external stakeholders. Details regarding the first two phases of the update are outlined in this approach paper.

A. Introduction

1. Sustainability has always been central to IFC and has evolved into a core element of its mission as IFC strives to realize the WBG's vision of a *world free of poverty on a livable planet*. IFC puts into practice its commitments to E&S sustainability through its Sustainability Framework, which consists of the Policy on Environmental and Social Sustainability (Sustainability Policy), the Performance Standards on Environmental and Social Sustainability (Performance Standards or PSs), and the Access to Information Policy (AIP). IFC's commitments relating to E&S sustainability due diligence and supervision are outlined in the Sustainability Policy. The PSs establish the standards that IFC investment clients must undertake to meet in activities financed by IFC and define clients' roles and responsibilities with respect to E&S risk management. The AIP defines IFC's institutional information disclosure and transparency obligations. The current edition of the Sustainability Framework became effective January 1, 2012. The evolution of IFC's current Sustainability Framework is critical to realizing the WBG's updated vision and maintaining IFC's leadership position as a standard setter for E&S risk management in EMDE.

2. IFC acknowledges potential stakeholder concerns in relation to the update of the Sustainability Framework. IFC is committed to strengthening and clarifying the Sustainability Framework through this update, while retaining the flexibility to strike the right balance among the key considerations outlined in this paper. IFC continuously adapts and expands its organization, procedures, systems, and tools for managing E&S risks to guide its operations and its clients in implementing good international industry practice (GIIP). In updating its Sustainability Framework, IFC will integrate lessons learned since 2012 from E&S specialists and other practitioners who apply the PSs, as well as insights from project monitoring, IEG and CAO, including the lessons learned from CAO compliance investigations. IFC recognizes that improvement will require not only reflecting the lessons learned that IFC has gathered but also listening to the ideas of external stakeholders, and IFC is committed to a robust process of stakeholder engagement for the update of its Sustainability Framework.

3. The PSs are a global benchmark for E&S risk management in EMDE and many stakeholders will have important contributions to make to, the Sustainability Framework update. The update will not only need to consider IFC's evolving operational context and E&S risk management needs, but also the implications for other stakeholders that have adopted the PSs or aligned around the PSs. More than 150 organizations, such as financial institutions that are signatories to the Equator Principles, export credit agencies, and Development Finance Institutions (DFIs) rely on the PSs, and a broad range of stakeholders, including IFC's past and present clients, co-financiers and mobilization partners, government agencies, academia and CSOs, will have valuable experience and new ideas to contribute to the update process.

4. The Sustainability Framework has influenced WBG E&S policies and standards. While there are differences related to MIGA's business model and products, MIGA applies the MIGA Performance Standards (2013), which are materially consistent with the PSs, and MIGA's Sustainability Policy (2013) and Access to Information Policy (2013) are materially similar to IFC's. MIGA will work closely with IFC in the review and update of the Sustainability Framework with the intention of updating MIGA's Sustainability Framework either concurrently or soon after. The Environmental and Social Framework (ESF) of IBRD/IDA is largely aligned with the structure of IFC's Sustainability Framework. Further convergence with the ESF is envisioned as part of the update process, as detailed below.

5. In addition to harmonization and convergence within the WBG, IFC is embarking on this process at a time when there is an increased focus on promoting harmonization of E&S standards with other standard-setters, particularly other MDBs. Harmonization of E&S policies has long been sought to be achieved, and MDBs have converged around E&S standards. As part of this year's G20 Roadmap for MDB

Reforms, MDBs are being asked to further collaborate on E&S policies and standards, particularly through promoting mutual reliance agreements among MDBs and, whenever possible, greater harmonization, and the update will seek to promote this collaboration.

6. This approach paper lays out IFC's proposed plan to update the Sustainability Framework. The paper describes the background and context for the proposed plan and outlines the key considerations as to how the Sustainability Framework should be revised and updated. The paper presents a proposed roadmap, including the proposed methodology and timeline for the update.

B. Background and Context

7. The Sustainability Framework was adopted in 2006 because the World Bank's existing E&S Safeguard Policies were designed for the public sector and not generally suitable for private sector operations. The 2006 Sustainability Framework reflected a new and innovative architecture for E&S policies and standards that clearly delineated the respective roles and responsibilities of IFC (through the Sustainability Policy), while the PSs outlined the requirements of clients at the project-level. In 2007, Guidance Notes (GNs), which offer guidance on PS requirements and on good sustainability practices to improve project performance, were added to the framework. With the launch of the Sustainability Framework, IFC became the international standard setter with respect to E&S risk management for the private sector in EMDE.

8. In approving the 2006 Sustainability Framework, the Board asked IFC to provide two updates at 18 months and 36 months, respectively. Based on those updates, Management and the Board agreed in 2009 to review and update the 2006 Sustainability Framework, and IFC formally launched an update process. The Sustainability Framework was updated in 2012, reflecting the evolving nature of E&S issues, as well as developments in IFC's business model and its markets. IFC's commitments to climate change, human rights, gender, as well as capacity building, were clarified or strengthened in that update to align with GIIP of the time.

9. IFC has had a robust E&S thought leadership program to share good practice publications and tools to support clients in achieving the PSs. Since 2012, over 80 publications have been issued to provide guidance on the implementation of PSs and IFC's approach to sustainability. Examples include a *Good Practice Handbook on Land Acquisition and Involuntary Resettlement* (2023) and a Good Practice Note on *Addressing Gender-Based Violence and Harassment: Emerging Good Practice for the Private Sector* (2020), as well as updates to some of the GNs to the PSs.

10. IFC's 2012 AIP and subsequent disclosure initiatives have helped shape international project-level disclosure standards over the past decade. IFC's AIP set the standard for DFIs and has inspired the policy frameworks of peer and private institutions. The 2012 AIP continues to guide IFC in providing accurate and timely information to clients, partners, and stakeholders. In addition, IFC's follow-on transparency commitments, such as enhanced disclosure related to financial institutions and Blended Finance projects, go beyond the approach of any other MDB or DFI.

11. Among peer MDBs, there has since been increasing alignment with the approach to E&S risk management and transparency set forth in IFC's 2012 Sustainability Framework, with certain MDBs introducing new innovations in recent updates. In addition, other financial institutions have adopted or aligned with PS-like approaches. In 2016, the ESF of IBRD/IDA was adopted. While largely aligned with the structure of IFC's Sustainability Framework, the ESF was tailored for public sector investment project financing activities, and introduced new features, including a vision statement and standalone standards

on FIs and Stakeholder Engagement and Information Disclosure. The European Bank for Reconstruction and Development (EBRD) largely aligned its Environmental and Social Policy with the IFC approach in 2008, updated it in 2014, 2019, and 2024. In 2020, IDB Invest adopted its Environmental and Social Sustainability Policy, which integrated the PSs. In the same year, the Inter-American Development Bank (IDB) adopted its Environmental and Social Policy Framework. The Asian Development Bank (ADB)'s Environmental and Social Framework was approved by its board in 2024. Among peer MDBs, the E&S frameworks of EBRD, the African Development Bank (AfDB), and ADB continue to apply to both public and private sector operations, while the IDB Group has separate E&S frameworks for private and public sector operations, with IDB Invest relying largely on IFC's PSs.

12. IFC has strengthened its E&S accountability and is committed to further improvement as it tackles increasingly complex E&S issues. The *External Review of IFC/MIGA Environmental and Social (E&S) Accountability, including the CAO's Role and Effectiveness* (the External Review), published in 2020, led to the implementation of the 2021 *IFC/MIGA Independent Accountability Mechanism (CAO) Policy* (the CAO Policy) and the further strengthening of IFC/MIGA's E&S procedures, tools, capacity building, and guidance. An IFC/MIGA remedial action framework has now been approved for implementation, on an interim approach basis, and concurrently IFC has mainstreamed its Approach to Responsible Exit. In addition, as of July 1, 2024, IFC has further strengthened its E&S Policy and Risk Department and IFC integrated frontline E&S operational expertise within Regional Vice Presidencies to drive greater ownership and accountability of regional management with respect to managing E&S risks, responding to issues raised by affected communities, and implementing management action plans for CAO cases.

C. Key Considerations for the Sustainability Framework Update

13. The update provides IFC with an opportunity to develop and adopt an E&S policy framework reflecting a fit-for-purpose approach commensurate with the scale and complexity of IFC's financial products and portfolio, capable of addressing complex emerging E&S risks and global challenges, such as biodiversity loss and ecosystem degradation, and aligned with the WBG evolution. An updated Sustainability Framework will build on recent measures undertaken by IFC to strengthen accountability and will enhance IFC's E&S risk management through the evolution of its well-established risk-based approach, including for products, particularly its equity investments and its increased role in private capital mobilization (PCM). IFC plans to focus on the following eight key considerations as part of the update. It is expected that these considerations will evolve based on stakeholder input.

i. Integrating lessons learned into the Sustainability Framework and developing a process for more timely incorporation of future lessons

14. Based on experience with the 2012 Sustainability Framework, there is a need to bring greater clarity to, and modernize, certain PS requirements. This is a critical consideration, and it is anticipated that the updated Sustainability Framework will:

- integrate lessons learned since 2012 from E&S specialists, practitioners, clients, and other relevant stakeholders;
- reflect an in-depth technical review of the PSs to modernize the language;
- clarify the interaction between the PSs and applicable national laws, including in connection with any actual or perceived conflicts;

- harmonize, as appropriate, the Sustainability Framework with more recent standards issued by other MDBs, with particular focus on the E&S standards included in the World Bank's ESF; and
- assess lessons learned from CAO compliance investigation reports and inputs from CAO's Advisory function.

15. In addition, the update will explore establishing a process that can incorporate future updates to the Sustainability Framework with agility based on the latest GIIP. Specifically, the update will consider how to develop a more agile process for updates that allows the Sustainability Framework and related guidance to integrate future lessons in a timelier manner, reflecting the natural evolution of GIIP and adapting to innovative financial structures, as well as changes in the global regulatory landscape. Options that will be analyzed include (a) providing for the review of the PSs in the future on a limited basis, which would be focused on lessons learned regarding specific thematic and crosscutting areas; and (b) establishing an agile process of periodic revision and update of the GNs.

ii. Reaffirming IFC's Thought Leadership on Sustainability

16. IFC's Sustainability Framework is viewed as the global private sector benchmark for E&S risk management in EMDE. The update provides IFC with an opportunity to reaffirm its leadership role. While MDB E&S policies remain largely anchored in IFC's Sustainability Framework, peer MDBs have introduced innovations. In addition to harmonizing standards, as appropriate, with peer MDBs, the update will provide IFC an opportunity to consider nuances of E&S risk management in the private sector. It will be critical to consult with peer MDBs, mobilization partners, and the many other users of the PSs throughout the process to ensure that changes being proposed facilitate, and do not impede, IFC's goal of enhanced collaboration with other MDBs and IFC's increased PCM goals. This will require appropriate guidance material to be developed to enable a common approach to implementation.

17. As part of the review, IFC will explore E&S risk management capacity building at scale for clients and others. The update will explore how IFC can leverage its internal E&S capacity to develop the next generation of knowledge products and trainings to support clients in their E&S risk management.

iii. Expanding the use of Differentiated E&S Approaches to Reflect the Evolution of IFC's Business Model and Product Offerings

18. While the 2012 Sustainability Policy already incorporates differentiation by product type, currently covering multiple IFC due diligence and monitoring modalities, the growing complexity and evolution of IFC's business model and product offerings warrants an update to the existing differentiated approach. The update of the Sustainability Policy will assess the viability of expanding the use of differentiated E&S approaches to IFC products, particularly for investment types that have, over time, increased in importance for IFC. These include, for example, equity, capital markets transactions, secondary market transactions, PPP projects, and securitization transactions. The same is true for upstream and advisory activities, including collaboration and co-development projects, which have increased in complexity and variety.

19. The differentiated approach enables IFC to clarify its E&S requirements for various products and services. Expanding the use of differentiated risk-based approaches would allow IFC to better explain and address product-specific differences in leverage, tenure, and other factors particular to the risk profile of such products. Differentiation by product type would continue to be reflected in the Sustainability Policy, which contains IFC's E&S due diligence and monitoring commitments and would not impact the underlying

Performance Standards applicable to clients, as they are greatly valued for their applicability across different products and geographies. Consideration of a differentiated approach will need to strike the right balance to avoid the creation of an unnecessarily complex or fragmented framework and enable the promotion of consistent approaches to tackling global challenges such as biodiversity loss and diminishing water quality.

iv. Clarifying IFC and Client Responsibilities under the Sustainability Framework

20. As part of the update, IFC's role and responsibilities and those of its clients will be critically reviewed and could result in changes to the Sustainability Framework architecture. The current Sustainability Policy adopts a flexible risk management approach that enables IFC to conduct E&S reviews commensurate to the risk, scale, and nature of each project. The Sustainability Policy will be reviewed with respect to IFC's due diligence practices at appraisal and supervision and consideration will be given to how to (a) streamline IFC's requirements, tailored to the relative complexity and tenure of each investment; (b) recognize more explicitly that IFC's leverage is determined by the type and nature of the financing provided, IFC's relationship with co-financiers, and the various stages of the project life cycle; and (c) reflect the impact of developments outside IFC's or the client's control, including events of *force majeure*, such as global pandemics and armed conflicts, which may impact the client's ability to fully achieve PS objectives within the life of the IFC's investment and IFC's ability to, for example, conduct E&S due diligence at appraisal and/or supervision. The review will also further clarify IFC and client roles and responsibilities regarding project implementation, with a focus on considering how to enhance client capacities to meet their roles and responsibilities. One additional area being considered is whether to create a separate vision statement, following the IBRD/IDA ESF approach. As discussed below in paragraph 24, such a WBG vision statement might be shared across the WBG.

21. In recent years, IFC has been delivering a series of accountability reforms that will be reflected in the new Sustainability Framework. These include (a) the strengthening of grievance response mechanisms at the institutional and project levels; (b) the ongoing development of a remedial action framework, which has been approved for implementation on an interim approach basis, to address harm resulting from E&S impacts related to projects supported by IFC; and (c) the mainstreaming of IFC's Approach to Responsible Exit. The Sustainability Framework update provides an opportunity to reflect these reforms, the lessons learned from the pilot of the remedial action framework, when implemented, and the mainstreaming of IFC's Approach to Responsible Exit. In addition, the update provides an opportunity to reflect the development of the CAO Policy in 2021.

22. The update will explore whether additional clarifications regarding the scope and nature of IFC's E&S-related responsibilities with respect to PCM are needed. The current Sustainability Policy has only a very limited reference to co-investments. Accordingly, the update will explore whether it would be useful to further clarify the responsibilities of IFC and its PCM partners with respect to private capital being mobilized by IFC, including when those responsibilities have been discharged. As part of the Sustainability Policy review, IFC will also assess whether additional clarifications are needed with respect to future PCM anticipated to be conducted by IFC, including the increased use of an originate-to-distribute model.

v. Analyzing the Potential for Interoperability with, and Reliance on, other Standards

23. In line with IFC's goal of collaborating with partners and increasing PCM, the Sustainability Framework review and update will consider how to integrate and leverage other E&S frameworks and reporting standards. This would help ease the compliance burden on clients, particularly corporate clients

subject to more stringent E&S regulation in their home countries. This could also involve exploring other options, perhaps outside of the formal update process, such as deploying IFC's convening power to seek greater convergence, at least among MDBs, on standards development, and to support interoperability across standards, including industry standards. Such consideration could also include the establishment of a mechanism to resolve conflicts between standards. This approach could give IFC greater flexibility to address the evolving differences between IFC's Sustainability Framework and those adopted voluntarily by, or imposed by regulation on, B-lenders, co-financiers, or parallel lenders. In addition, IFC will explore opportunities to rely on the E&S risk management frameworks of other MDBs for jointly financing projects. The ESF of IBRD/IDA includes provisions for such a common approach, and the updated Sustainability Framework could include similar or expanded provisions to better enable reliance on other members of the WBG with respect to E&S due diligence and supervision. Beyond the WBG, similar provisions could also be explored to enable increased reliance on the E&S risk management frameworks of other MDBs, subject to discussion with the relevant independent accountability mechanisms.

vi. *Aligning with the WBG Evolution, including the “One World Bank Group” approach, while preserving a private sector focus*

24. The review and update of the Sustainability Framework will align with the WBG Evolution by moving toward a “One World Bank Group” E&S approach. IFC, together with MIGA, will work with IBRD/IDA on achieving greater harmonization of IFC's and MIGA Sustainability Frameworks with the ESF, while ensuring that the PSs remain fit-for-purpose for the private sector. In addition to maintaining harmonized standards, the update provides an opportunity for IFC to establish its ability to rely on MIGA and IBRD/IDA and to explore whether IFC and MIGA could apply IBRD/IDA's public sector standards in certain projects. This would build on WBG initiatives to harmonize E&S requirements in projects involving multiple WBG institutions, such as the work on Hybrid PPP projects, undertaken by IFC and IBRD/IDA, and the WBG Guarantee Platform, and consider, when appropriate, the application of the public sector standards of IBRD/IDA for IFC's financing of subnational clients, such as municipalities or regional government agencies. One approach to harmonization being explored would be a “One WBG Sustainability Framework” that would maintain a clear distinction between the public and private sector operations (e.g., one set of WBG Private Sector Performance Standards) but provide for certain common WBG elements. This approach could include developing a common WBG Vision Statement and certain common E&S policy provisions (e.g., a provision that would enable each institution to apply the ESSs or the PSs and establish a mutual reliance framework among all the institutions of the WBG), while retaining a set of distinct E&S policy provisions and E&S standards applicable to IBRD/IDA, IFC, or MIGA to address the nuances particular to public versus private sector financings.

25. The update supports IFC's development mandate by recognizing how critical it is for IFC to enable and encourage increased focus on investments in Fragile and Conflict-Affected Situations (FCS) and International Development Association (IDA) countries. This work can build on the pioneering and market-leading work done by IFC in collaboration with IBRD/IDA on contextual risks, which are risks in the external environment (at a country, sector, or subnational level) that a client does not control but which could negatively impact a project's or client's ability to meet E&S requirements. As part of the update process, IFC will further explore, in consultation with IBRD/IDA, ways in which its due diligence processes, anticipated outcomes, and PS-compliance timeframes could be tailored to promote improved client performance in IDA and FCS contexts, which will need to be considered together with the attendant institutional risk appetite.

26. There is an opportunity to explore convergence with the ESF of IBRD/IDA where appropriate and relevant, bearing in mind the differences in operations, clients, and financing modalities and products of IFC, MIGA and IBRD/IDA. A key area of focus of IBRD/IDA's efforts to streamline and strengthen the ESF is to increase reliance on "Borrower Frameworks," meaning the host country's policy, legal, and institutional framework for the management of E&S risks in projects. IBRD/IDA is committed to the use and development of borrower frameworks to avoid unnecessary duplication of effort, build national capacity, and achieve development outcomes that are materially consistent with the objectives of the ESF. In addition, IBRD/IDA uses other financial instruments or provides support as part of the financing to help the borrower close the assessed gaps with borrower frameworks. Similar mechanisms for using a host country framework have been adopted by other MDBs, including IDB, AfDB, ADB, and AIIB, and the update also provides an opportunity to explore whether IFC could apply such a framework for certain projects. A summary of potential areas of convergence with IBRD/IDA is presented below.

Potential Areas for Convergence with IBRD/IDA

- *Use the policy, legal, and institutional frameworks for managing E&S issues of borrower countries and develop common approaches for managing E&S issues with co-financiers.*
- *Align on Risk Categorization—the Sustainability Framework has 3 categories for direct investments (A, B, C) and for FIs (FI-1, FI-2, FI-3), while the ESF has 4 categories (High Risk, Substantial Risk, Moderate Risk or Low Risk) for all projects. Alignment will also be considered for Upstream/Advisory risk ratings.*
- *Converge requirements on thematic issues like resettlement, biodiversity, vulnerable groups, Indigenous Peoples, gender/GBV/SEAH, and labor.*
- *Align on E&S scope and requirements linked to associated facilities, cumulative impacts, and dam safety.*
- *Converge AIP Policies with respect to entity-level disclosures and reporting, implementation practices, and terminology/definitions.*

vii. Enhancing consistency with other corporate initiatives and commitments

27. IFC's approach to sustainability has evolved and expanded greatly over the last decade, encompassing a variety of dimensions beyond E&S risk management, and the update provides an opportunity to enable the development of an updated Sustainability Framework that is consistent with these other efforts. For example, IFC has been a pioneer in developing innovative sustainable finance solutions, such as its leading work in developing green, blue and biodiversity finance products and guidance, and in the field of impact investing, notably its work developing the Operating Principles for Impact Management. The update of the Sustainability Framework will explore whether there are additional opportunities to enable the Sustainability Framework to be consistent with, but not duplicative of, other corporate initiatives and strategies addressing sustainability, while maintaining the focus of the Sustainability Framework on E&S risk management.

28. Exploring the interface of the Sustainability Framework with recently adopted international sustainability reporting standards will also be an important part of the review and update process. In recent years, national and regional jurisdictions, as well as international standard-setting bodies, have developed and adopted a range of sustainability reporting standards and requirements, such as the International Sustainability Standards Board's global sustainability disclosure standards (IFRS S1 and S2). The review and update process will consider the extent to which the new Sustainability Framework could support alignment by users of the PSs, including clients, with such internationally recognized standards and regulations.

viii. Designing an updated AIP that reflects IFC's new transparency commitments, clarifies existing ambiguities, and outlines a renewed vision of transparency

29. While IFC remains a leader in transparency, uncodified follow-on transparency commitments related to the AIP have presented challenges for stakeholders. The opportunity to update the AIP and revisit the architecture of the Sustainability Framework can be an important step towards strengthening and modernizing IFC's commitment to transparency and disclosure. Twelve years of AIP implementation have highlighted areas of the policy that would benefit from greater clarity, including the potential need to further define exceptions to disclosure such as commercial sensitivity or deliberative information, what a "relevant" document might be, and client versus IFC disclosure obligations. Consideration will be given to adopting a higher-level board-approved policy and a more specific management-approved directive.

30. IFC should leverage the AIP update to reflect and articulate a renewed vision of transparency for IFC to emphasize institutional priorities and maintain public trust while respecting private sector client confidentiality. At the project level, it is more important than ever to demonstrate that IFC's engagement with its clients does not end once the investment has been made. This would reaffirm IFC's commitment to enhance transparency about its activities, improve development effectiveness, and promote good governance.

D. Methodology

31. The update of the Sustainability Framework will require, and be informed by, the completion of a thorough benchmarking of standards and practices, assessments of thematic areas, analysis of financial and advisory products and markets, and consultations with internal and external stakeholders. Details regarding the first two phases of the update, which are interrelated, are outlined below.

Phase 1: IFC is engaged in Phase 1 of the update process, which involves the following:

- **Studies & Assessments:** IFC is undertaking studies and assessments to explore the key considerations identified above.
- **Lessons Learned:** IFC is undertaking an analysis of its 12 years of experience in implementing the Sustainability Framework. The analysis also explores themes and areas where IFC's clients have had challenges in meeting PS requirements leading to delays and difficulties in implementation of E&S action plans.
- **IEG Assessment:** IFC is engaging with IEG to discuss and capture their assessments of any key gaps in the interpretation of the Sustainability Framework.
- **CAO Collaboration:** IFC will also work closely with the CAO to discuss and capture lessons learned

from CAO cases. In addition to considering prior work done by the CAO, such as its work on addressing the risk of reprisals, IFC is engaging with the CAO to discuss and consider recommendations arising from the series of advisory notes being developed by the CAO relating to implementation of the Sustainability Framework. This is in keeping with CAO's previous advisory input to the establishment and update of the Sustainability Framework and in line with its mandate.

- **Internal/WBG Consultations:** Internal consultations are taking place and will continue at both a global and regional level with E&S, Investment, Legal, Syndications, Credit, Climate, Communication, and Advisory/Upstream teams to discuss lessons learned, gaps, and areas for improvement. Discussions with IBRD/IDA and MIGA are essential to determine the extent to which a more harmonized WBG approach can be created and on where greater convergence can be implemented.
- **Targeted External Consultations:** There will be targeted discussions with external stakeholders, including select MDBs/DFIs, host country regulators/professional associations, clients, international organizations, industry associations, international trade unions, top PCM partners, and CSOs, to seek inputs and insights on key thematic E&S issues and implementation and operational aspects of the Sustainability Framework and emerging trends. Throughout the consultation process, special emphasis shall be made to gather input from the perspective of a range of stakeholders based in EMDE, including SMEs.
- **Stakeholder Engagement Framework/Communications Strategy:** A detailed framework outlining the proposed external consultation approach, including up to two rounds for comments, will be publicly disclosed at the start of Phase 1. In addition, a strategy for internal and external communications is being developed to provide thorough, accurate and timely information to internal and external stakeholders about the rationale, process, and outcomes of the update process. This framework will be converted into a fully-fledged Stakeholder Engagement Plan by the start of Phase 2 of the update process.

Phase 2:

32. The foregoing will form the basis for drafting the updated Sustainability Framework that will be put forward for external public consultation guided by the WBG's Consultation Principles and the AIP to support meaningful stakeholder participation. The consultation will be guided by the following key principles:

- IFC will adopt a transparent and predictable consultation process and share easy-to-comprehend information about the expected timeline and relevant aspects of the review process, stakeholder engagement, consultation outcomes, and how stakeholder inputs will be considered.
- IFC will welcome inputs from all affected and interested parties and encourage diverse views and perspectives.
- IFC will communicate appropriately about milestones in the consultation process, including targeted outreach to relevant audiences through various channels, as well as publishing a dedicated website that will serve as the central location for public information about the review and update process, including the latest drafts and timelines.

- IFC will make efforts to consult stakeholders through a variety of methods, giving careful consideration on how to reach diverse stakeholders and how to access views from diverse sectors.

33. During this second phase, global multi-stakeholder consultation will be conducted to solicit feedback on the updated Sustainability Framework. This will take place in the form of open house consultations for all stakeholders, multi-stakeholder consultations by invitation only (e.g., for MDBs and clients), thematic consultations on specific topics, and community-level consultations. Meetings will be a mix of virtual and in-person, structured to elicit constructive feedback, with written comments requested by specified deadlines.

E. Timeline

34. The current indicative high-level timeline for the Sustainability Framework review and update process is outlined below. The time ultimately required for the Sustainability Framework review and update will depend on the duration of the external stakeholder consultation process, which will be structured to provide ample time for a robust, comprehensive and inclusive process. This timeline assumes that drafts of the updated Sustainability Framework can be agreed upon internally in a timely manner following consultation with key stakeholders.

Overall timeline at-a-glance: Phases and Key Milestones

