

The EDFI Environmental and Social (E&S) Working Group has adopted a set of Harmonized EDFI E&S Standards for direct investments including E&S category definitions to be used when co-financing among EDFIs occurs.

This guideline describes the definition of E&S risk categories and the criteria for determining the risk category of projects.

**Definition of risk categories**

Categorisation reflects the potential E&S impacts and risks of the project. The category reflects inherent risks and does not consider the capability of the project company to manage such potential impacts i.e. management systems and performance.

EDFI defines the following environmental and social categories for direct investments:

| High risk (A)  | Medium High Risk (B+)   | Medium Risk (B)   | Low risk (C)  |
|--|---|---|---|
| Projects with significant potential adverse social or environmental impacts or risks that are diverse, irreversible or unprecedented. This includes impacts that cannot be mitigated or remedied or only at significant costs. | Projects with generally limited potential adverse social or environmental impacts or risks that are site-specific and readily addressed through mitigation measures, but having some specific features which can have significantly larger adverse social or environmental impacts. | Projects with limited potential adverse social or environmental impacts or risks that are site-specific and readily addressed through well-known mitigation measures. | Projects with minimal or no adverse social or environmental impacts or risks. |

**Categorisation criteria**

Projects are categorised based on both their environmental and social impacts. The highest impact category obtained is applied to the project.

Activities to be considered in the categorisation include both actual and potential impacts related to the project’s own activities and those of its business partners in the entire value chain. Impacts to be considered include e.g.:

- Impacts caused by a project’s activities and facilities that are directly owned, operated or managed by the project (including by contractors), and impacts to which a project’s activities contribute. It can e.g. be an animal farm managed or owned by the sponsor of a slaughterhouse.
- Impacts by business relationships that are directly linked to the project’s operations, products or services, e.g. primary supply chains such as small scale farmers dependent on the off-taking by a financed slaughterhouse.
- Impacts from associated facilities that are not funded by the project but that would not have been constructed or expanded if the project did not exist and without which the project would not be viable, e.g. roads, transmission lines, pipelines and utilities.
- Impacts on communities or resources directly impacted by the project. E.g. reduction of water available in a watershed due to multiple withdrawals, and impacts on biodiversity or ecosystems upon which local communities’ livelihoods are dependent.

The following criteria determine the **environmental risk category** of projects and indicate which activities that would be categorised as A or B+:

- High consumption of natural resources
- Use of hazardous substances and materials e.g. chemical pesticides
- Hazardous operations with potential impact on human health and the environment if an accident occurs
- Emissions of pollutants to water and air and generation of waste, especially hazardous waste
- Potential impacts of land use
- Operations in sensitive or protected areas (natural habitats) including impacts on biodiversity
- Potential heavily impact on ecosystem services e.g. due to intensive use of ground water

The following criteria determine the **human rights and social risk category** of projects and indicate which activities that would be categorised as A or B+:

- Low wage and/or long hours' industries
- High occupational health and safety risks
- Large proportion of vulnerable groups e.g. temporary workers, migrants, minors, women, disabled persons, etc.
- Many workers hired through sub-contractors, especially where core business activities are outsourced to sub-contractors
- Presence of indigenous peoples in the project impact area
- Physical or economic displacement
- Occurrence of resettlements
- Significant impacts on cultural heritage, including project site preventing access to cultural heritage
- Potential impacts on social and economic infrastructure
- Potential impacts on community health and safety, including product-related impacts
- Projects with extended construction activities e.g. worker camp needed

Enclosure 1 shows the EDFI Harmonized List of High Risk Sectors normally considered as category A projects.

The categorisation of the project must be documented by ticking off the criteria that determine the E&S risk category in ODIN (Registration/Create\_Update application/ESG details).

## **Enclosure 1 – EDFI Harmonized List of High Risk Sectors**

The following sectors are considered usually to be high risk industry sectors, for both new developments (greenfield) and for existing companies (brownfield). Depending on project specifics, the E&S risks of an individual project may be medium. In such cases detailed rationales for categorisation must be documented.

The sectors as listed below cover the activities as defined under the heading ‘Applicability’ of the corresponding IFC’s Environmental, Health, and Safety Guidelines as defined under IFC’s Performance Standards or directly trigger IFC Performance Standard 5-8.

### **Infrastructure**

- Railways
- Ports, harbors and terminals
- Airports
- Toll roads
- Crude oil and petroleum product terminals
- Pipelines
- Long distance overhead transmission lines
- Large dams (hydro power plants / irrigation/water supply)
- River-run-off hydro power plants (> 50 MW)
- Waste management / Waste treatment facilities
- Thermal power: new plants (> 50 MW)
- Thermal power: existing plants (> 50 MW)
- Wind parks (> 100 MW installed capacity)

### **Oil & Gas**

- Offshore oil and gas development
- Onshore oil and gas development
- Liquefied natural gas (LNG) facilities

### **Large Scale Primary Production (Plants / Animals)**

- Plantation crop production
- Forestry
- Aquaculture
- Animal production

### **Heavy Industry**

- Cement and lime manufacturing
- Glass manufacturing
- Construction materials extraction
- Integrated steel mills
- Base metal smelting and Refining
- Pulp and paper mills

- Foundries
- Pharmaceuticals and biotechnology manufacturing
- Coal processing
- Natural gas processing
- Oleo chemicals manufacturing
- Nitrogenous fertilizer manufacturing
- Phosphate fertilizer manufacturing
- Pesticides manufacturing and packaging
- Petroleum-based polymers manufacturing
- Petroleum refining
- Large volume petroleum-based organic chemicals manufacturing
- Large volume inorganic compounds manufacturing and coal tar distillation

**Mining**

- Mining (open pit and underground)

**Socially Critical Projects**

- Projects with large groups of low-skilled labor, for instance in free trade zones etc. (e.g. textiles manufacturing projects which may affect indigenous or tribal populations)
- Projects which may affect areas of archaeological or cultural significance
- Projects which cause or have caused (during last 5 years) physical or economic resettlement
- Projects which cause retrenchment of more than 10% of the present work force (or > 50 workers)

**Environmentally Critical Projects**

- Projects in or bordering ecological sensitive or protected areas (e.g. agriculture in Amazon area, large scale tourism projects)
- Large scale conversion of natural habitats
- Large scale land reclamation
- Projects that have potential to heavily impact ecosystem services (e.g. due to intensive use of ground water)

IFC's Performance Standards and IFC Environmental, Health, and Safety Guidelines can be downloaded from the IFC website:

[http://www1.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Sustainability+Framework/](http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/)