**Establishment of Environmental and Social Framework at the Cooperate Level**

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**Abstract**

K-water (Korea Water Resources Cooperation), Korean Government Owned cooperation, is conducting infrastructure investment projects in the Solomon Islands, Indonesia, Georgia, and other countries. However, K-water faced challenges due to a lack of understanding of environmental and social policies of international financial institutions such as the World Bank, ADB, IBRD and commercial banks. To minimize environmental and social impact and adhere to the policies of these financial institutions, K-water has been comparing and analyzing the environmental and social policies of Multilateral Development Banks (MDBs) and Equator principles. Through such comparative analysis, K-water has established the scope and methods for environmental and social reviews at different stages (proposal, pre-feasibility study, feasibility study, environmental and social impact assessment, construction, and operational phases) of its investment projects. Furthermore, specific technical guidelines have been developed for each stage, applied in K-water's key infrastructure projects, including dam construction, solar energy, water supply development, and urban development projects. K-water expects that the framework and technical guidelines it has established will meet global environmental and social standards through collaborative reviews by domestic and international experts.

**1. Introduction**

Overseas business opportunities are growing as MBDs and the Korean government invest more overseas. The World Bank Group is expected to invest KRW 820 trillion in 2022, the Korean government is expected to invest KRW 3.6 trillion in ODA projects by 2024, and the Economic Development Cooperation Fund (EDCF) is expected to invest KRW 11.4 trillion. Along with these investments, the World Bank, continental financial organizations, and general financial companies are strengthening their environmental and social policies and standards for projects to a similar level and applying standard criteria. However, K-water's overseas projects are experiencing an increasing number of project delays due to environmental and social issues, and K-water’s policies and approaches need to be strengthened. In particular, the Tina Hydropower Project in Solomon Islands experienced a 40-month delay in the approval of the Environmental Social Management Plan (ESMP), additional consulting costs due to the delay, and increased construction overheads. In addition, the Nenskra Project in Georgia is also experiencing difficulties in responding to environmental and social issues.

To overcome the shortcomings in the project implementation process, K-water established a strategy to strengthen the environmental and social management of overseas projects in 2022. The strategy includes nine tasks in three areas, divided into three standardization tasks, three institutional improvement tasks, and three human capacity building tasks. As part of the standardization task, K-water established company-wide environmental and social management standards for overseas projects.

**2. Methods**

In order to establish company-wide environmental and social management standards for overseas operations, K-water first analyzed the environmental and social policies and environmental, health and safety standards of financial institutions and investigated their application cases. The MDBs included the World Bank, IFC, ADB, EBRD, and IDB, and the Equator Principles applied by commercial banks were targeted. In addition, K-water established the overseas project process for dam construction and operation, water supply development, solar power, and urban development projects that can be carried out overseas in accordance with K-water's establishment law. In order to systematically manage the environmental and social risks of overseas projects, the process of overseas projects was categorized into project proposal, (pre-)feasibility study, impact assessment, construction, and operation, and implementation standards for environmental and social management were established for each stage.

As K-water was in the process of establishing environmental and social management standards for its overseas project for the first time, a joint review with the International Finance Corporation (IFC) was conducted to assess the appropriateness of the standards to be established, and was reviewed by an internal task force and external experts together.

**3. Results**

**3.1 MDBs policies, WB EHS Guidelines and case studies**

We analyzed the environmental and social safeguard policies and gaps of MDBs such as the World Bank, ADB, and EBRD. As shown in table 1 below, the MDBs have adopted policies for environmental and social management across their financial institutions, and apply Good International Industrial Practice to technically manage environmental and social risks in projects. Table 2 shows the areas covered in the MDBs' environmental and social policies, and shows that most of them cover similar categories, and this common application is aimed at complying with international treaties and global standards. In addition, commercial banks are applying the Equator Principles, and the Equator Principles are based on the policy of the International Finance Corporation (IFC), which shows that commercial banks are applying the same standards.

Environmental, health and safety standards are broadly governed by the World Bank's EHS Guidelines, with industry-specific guidelines provided. We concluded that this is the basic and minimum principle of following Good International Industrial Practice across MDBs.

<Table 1> Status of MDBs' environmental and social policies and EHS standards

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Safeguards framework** | **IFC** | **EBRD** | **IDB** | **ADB** |
| **Bank Responsibilities:** Safeguarding frameworks of multilateral development banks define in policy documents the responsibilities with which the institution must comply - Regulations | **Environmental and Social Sustainability Policy** Defining IFC's environmental and social responsibilities, objectives, mandate, roles and responsibilities, and compliance inspection regime. | **Environmental and social policy (ESP)**  Define EBRD's environmental and social responsibilities, objectives, mandate, roles and responsibilities, compliance inspection regime, and disclosure procedures | **Environmental and Social Policy Framework (ESPF)**  Define IDB's environmental and social responsibilities, objectives, mandate, roles and responsibilities, compliance checks, and governance arrangements | **Safeguarding Policy Statement (SPS)**  ADB's Environmental and Involuntary Resettlement - Indigenous Peoples mandate, objectives, authorities, roles and responsibilities, compliance inspections, and governance arrangements procedures are defined |
| **Borrower responsibilities: The** safeguard frameworks of multilateral development banks set out the environmental and social standards that borrowers must comply with, which are largely based on the International Finance Corporation Performance Standards. | **International Finance Corporation Performance Standards**  Eight environmental and social criteria for borrowers to adhere to. Also references other organizations as industrial good practice | **EBRD Performance Conditions (PR)**  Setting out 10 environmental and social criteria-standards for borrowers to adhere to. Much like the International Finance Corporation Performance Standards | **Environmental and Social Performance Standards (ESPS)**  Setting out 10 environmental and social criteria-standards for borrowers to adhere to. Much like the International Finance Corporation Performance Standards | **Safeguard condition (SR)**  Sets out three standards for borrowers to adhere to: environmental, resettlement and indigenous peoples. Much like the International Finance Corporation Performance Standards |
| **Industrial Good Practice** | | | | |
| Industrial Good Practice refers to the numerical and quantitative standards that borrowers can refer to in fulfilling the requirements of each environmental and social standard, mostly drawn from the International Finance Corporation Performance Standards and the World Bank EHS Guidelines. | World Bank EHS Guidelines  Provide general and industry-specific guides  Agriculture & Food Production(13),  Chemicals (11),  Forestry (4),  General Manufacturing (12),  Infrastructure (14),  Mining (1),  Oil & Gas (3),  Power Plants (4) | Borrowing from International Finance Corporation Performance Standards, World Bank EHS Guidelines and European Union Directives and related standards as industrial good practice | Borrowing from the International Finance Corporation Performance Standards, World Bank EHS Guidelines and the Bank's own standards and research as industrial good practice | Borrowing from the International Finance Corporation Performance Standards, World Bank EHS Guidelines and the Bank's own standards and research as industrial good practice |

<Table 2> Status of MDBs in the area of environmental and social policy



**3.2 Adoption of Basic Policy for Establishing Environmental and Social Standards for K-water's Overseas Operations**

In order to establish K-water's own environmental and social standards for overseas project, we used the International Finance Corporation's (IFC) environmental and social policy as a basis to follow the MDBs' policies and EHS guidelines, since IFC provides relatively detailed technical information and has many resources to utilize. The linkage structure and application of IFC Performance Standards, Guidance Note (GN), and Implementation Resources of the IFC's Environmental and Social Policy is analyzed as shown in Table 3, and cases of K-water's major overseas project areas of dam construction, water supply, solar power, and urban development projects were examined. The individual projects were either successful due to faithful implementation of the environmental and social sectors or cancelled due to failure to meet the standards, as shown in Table 4. In addition, by referring to the frequency of application of each performance standard, we classified the areas that K-water should consider at each stage of overseas projects and derived focused review points and approaches for risk management.

<Table 3> International Finance Corporation (IFC) Environmental and Social Policy Linkages

|  |  |
| --- | --- |
| **International Finance Corporation Performance Standards**  Sets out eight environmental and social standards to which borrowers must adhere.  Implementation Standard 1 sets out the requirements for the management framework and encompasses Implementation Standards 2 through 8. | |
| **Guidance Note (GN) and Implementation Resource (IR)**  Guidance Notes and IRs provide specific requirements and additional material as appendices to the Performance Standards | **Guidance Note**: Guidance Notes (GNs) provide detailed requirements and commentary for each Performance Standard to serve as a guide to meeting each Performance Standard and as an application guide. A total of eight GNs are available for each Performance Standard, updated at the same time as the Performance Standard (2006 and 2012)  **Implementation Resource**: Implementation Resources are resources that are available in various forms, including research, case analyses, and guides related to the Standards. Provides more academic or specific content |
| **World Bank EHS Guidelines**  Environmental and social standards for borrowers to refer to, comprising general guidelines and a total of 62 industry guidelines under eight major industry groups | **World Bank EHS Guidelines** : The World Bank's EHS Guidelines provide technical methodologies for each sector (measurement methods, analysis methods, and specific evaluation methods and criteria for environmental data and reduction measures). It is divided into general guidelines and industry-specific guidelines.  **General guidelines**: divided into four sections: environment, occupational health and safety, community health and safety, and construction and decommissioning  **Industry guidelines**: divided into eight major industries: agriculture, forestry, chemicals, manufacturing, mining, oil & gas, power generation, and infrastructure, and provided as guidelines for sub-industries within each industry. Specific methodologies are presented for each industry, reflecting its characteristics |

<Table 4> Frequency of IFC's Environmental and Social Policies



3.3 Comparison with Korean environmental and social legislation

K-water compared its environmental and social obligations under Korean law with the IFC's environmental and social policy to identify gaps in its domestic operations. As shown in Table 4, we found that there are no significant differences between the IFC's environmental and social policies and Korean laws and regulations, and that the same standards are applied. However, the IFC's environmental and social policy is structured as a single policy, while the Korean law regulates the same content in separate laws. According to the Equator Principles, the Republic of Korea is a Designated Country, which means that the environmental and social sectors are managed according to Korean law instead of the Equator Principles, and the Korean legal system is considered to be well developed. However, there are differences in the timing of Environmental and Social Impact Assessment (ESIA) and stakeholder consultation as shown in Table 5. In Korea, ESIA is implemented once a project is approved by the government, but in the case of MDBs' projects, it is implemented from the project proposal stage.

<Table 4> Comparison of the IFC's Environmental and Social Policy and the Korean Legal System

|  |  |  |
| --- | --- | --- |
| **Separation** | **National legislation** | **By IFC** |
| 1.Environmental Impact Assessment | Environmental Policy Framework Act  Environmental Impact Assessment  Urban Traffic Maintenance Promotion Act, etc. | PS 1 Environmental and social risks, impact assessment and management |
| 2.Migration | Act on Acquisition and Compensation of Land, etc. for Public Utilities | PS 5 Land Acquisition and Involuntary Resettlement |
| 3.Native | Act on the Acquisition and Compensation of Land, etc. for Public Utilities  National Human Rights Commission Act, etc. | PS 7 Native |
| 4.labour | Labor Standards Act  Occupational Health and Safety Act | PS 2 Labor |
| 5.Contamination prevention | Water Conservation Act  Chemical Control Act  Clean Air Act  Noise and Vibration Management Act, etc. | PS 3 Resource efficiency, pollution prevention |
| 6.Health | Occupational Health and Safety Act  Chemical Control Act  Disaster and Safety Management Framework Act  Natural Disasters Act | PS 4 Community health, safety, and security |
| 7.Biodiversity | Environmental Impact Assessment Act  Laws on wildlife conservation and management, etc. | PS 6 Biodiversity conservation and sustainable natural environments |
| 8.Cultural Heritage | Cultural Property Protection Act  Act on the Protection and Investigation of Buried Cultural Property  Special Act on the Conservation, Management and Utilization of World Heritage Sites | PS 8 Cultural Heritage |
| 9.Stakeholders | Environmental Impact Assessment Act  Occupational Health and Safety Act, etc. | PS 1 Environmental and social risks, impact assessment and management |
| 10.Finance | Act on External Audit of Joint Stock Companies, etc. | PS 1 Environmental and social risks, impact assessment and management |
| 11.Gender equality | Gender Equality Act  Sexual Violence Prevention and Victim Protection Act | PS 1 Environmental and social risks, impact assessment and management |

<Table 5> Timeline and flow chart for MDBs and Korea's environmental and social impact assessments

**Domestic Environmental Impact Assessment**

**Overseas Environmental and Social Impact Assessments**



**No public consultation**

**Public Consultation**

**Construction**

**Post-Environmental Survey Report**

**Public Consultation**

**Public Consultation**

**Scoping**

**Draft evaluation**

**Final evaluation**

**Consultation (information sessions, public hearings)**

**Public consultation, consultation By the Ministry of Environment**

3.4 Establishing environmental and social policies and technical standards for K-water's overseas operations

K-water has established frameworks for the environmental and social aspects of overseas project. Table 6 shows the matters to be reviewed at each stage of overseas project implementation, and the appendix establishes the detailed review scope and procedures for each stage for K-water's overseas projects of dam construction, solar power, water supply, and urban development. These standards were enacted within K-water in September 2023 and are applied to overseas investment projects implemented by K-water. And in the case of ODA projects, frameworks are applied in accordance with the pre-feasibility study stage. In addition, technical guidelines have been established, stipulating detailed technical standards and methodologies to be used for environmental social risk management.

<Table 6> Overview of K-water's environmental and social frameworks for overseas projects

|  |  |  |
| --- | --- | --- |
| stage | Key scope of review | Methods |
| proposal stage  (Sections 5 to 7) | Reviewed in line with the four priority areas of the IFC Performance Standards (Indigenous Peoples, Cultural Heritage, Biodiversity, and Land acquisition) | Data research, satellite image analysis, etc.  Due diligence as required |
| Pre-feasibility studies  (Sections 8 to 10) | ․Review of environmental and social impacts (8 categories) during the Pre- Feasibility Study | ․Use advice (or services)  Can be done directly |
| Feasibility studies  (Articles 11 to 13) | ․Feasibility study to assess environmental and social impacts and establish direction for mitigation measures | ․Use advice (or services)  ․Public consultation |
| Environmental and social impact assessment  (Articles 14 to 18) | Receipt of ToRs from MDBs based on feasibility study findings  Implement ESIAs and develop mitigation and management plans  Establishing the employer's ESMP and deriving the EPC's list of ESMPs | ․Use advice (or services)  ․Parallel negotiations with MDBs |
| Implement and manage the construction phase  (Articles 19 to 22) | Receive and supervise ESMPs for EPC construction works  Manage and improve owner and EPC performance | ․Use consultancy (or services) or  can be done directly |
| Operational phase implementation and management  (Articles 23 and 24) | ․Improve ESMP implementation and management in operations  Responding to MDBs independent audits (local due diligence) | ․Use consultancy (or services) or can be done directly |

**3.5 Joint review and capacity building training**

As a result of the joint review, it was suggested that the work process and scope of environmental and social risks are appropriate, but that it is necessary to start environmental and social risk review at the pre-feasibility study stage and to supplement the environmental and social review staff within K-water.

In addition, K-water conducted two capacity-building trainings for employees in charge of overseas project in K-water. One training was conducted through the International Finance Corporation (IFC) and one through a global environmental and social consultant.

**4. Discussion**

K-water has been facing various difficulties with environmental and social issues in its overseas project. We expect that many of these difficulties will be resolved through the establishment of environmental and social frameworks for K-water's overseas projects at the cooperate level. Looking back, it is true that K-water focused only on complying with countries laws and regulations of the project while implementing projects, and also true that K-water was not aware of the existence of MDBs' own environmental and social policies when implementing projects in underdeveloped countries where laws and regulations are not well established. K-water is expecting that the establishment of its own policy will accelerate the promotion of overseas projects that meet global standards. K-water's Environmental and Social Frameworks for Overseas Project is the first case in Korea at the corporate level, and we will continue to improve them in line with the changing global environment.

**5. Reference**

IDB (2018), Corporate Evaluation Environmental and Social Safeguards Evaluation

K-water (2023), Overseas Project Environmental, Social and Technical Standardization Project.

IFC (2012), Performance Standards on Environmental and Social Sustainability

Word Bank, Environmental, health, and safety guidelines