

HCV and IFC PS6: why do the different approaches matter to industry?

Business relevance and implications

- Many lenders require alignment with IFC PS6, while certification systems often use the HCV framework.
- Companies with a full understanding of the requirements of both IFC PS6 and HCV avoid duplication of effort and benefit from smoother project timelines.

Introduction to HCV and IFC PS6

The **High Conservation Value (HCV) approach** is used by multiple commodity certification schemes, including FSC ([Forest Stewardship Council](#)), RSPO ([Roundtable on Sustainable Palm Oil](#)), and [Bonsucro](#) (sugarcane), to identify and manage important areas for biodiversity and ecosystem services (BES). Several commercial banks have also adopted the HCV approach in their lending policies. In addition, HCV is a core element of corporate 'zero deforestation' commitments and the Consumer Goods Forum [Soft Commodities' Compact](#).

Performance Standard 6 (PS6) is part of the International Finance Corporation's Sustainability Framework (IFC is a World Bank Group member) and is used extensively in the financial sector, for example by members of the [Equator Principles Association](#) and development banks, to manage financial, social and environmental risks associated with the BES footprint of their lending portfolio. Developments seeking funds have to meet the requirements of the Performance Standards (nine in total) as a condition of financing.

Why do we need to know about HCV and PS6?

An increasing number of projects, particularly within agribusiness, are seeking alignment with both PS6 and the HCV frameworks for funding and market access, and as such need to understand the commonalities and differences of the two approaches. This can present a challenge for both lenders who wish to ensure that risks are effectively managed, and for companies who wish to avoid duplication of effort and to understand requirements clearly.

At a glance

- PS6 and the HCV approach are both widely -used frameworks for identifying and managing biodiversity risks.
- Aligning with PS6 is considerably more onerous than the most common HCV implementations; companies seeking to align with both will benefit from paying early attention to PS6 requirements.
- Key differences lie in the spatial scope, thresholds for identifying priority features, management of non-critical biodiversity, and identification of priority ecosystem services.
- Divergence in the assurance process can lead to variation in conservation outcomes.



Both HCV and PS6 address ecosystem services (e.g. cultural values) and biodiversity.

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Comparison of PS6 and HCV frameworks

At a broad level, there is considerable overlap between the main elements of the PS6 and HCV approaches ([Table 1 overleaf](#)). Similarities include:

- Broad alignment about the *types* of biodiversity features and ecosystem services that should be prioritised.
- Emphasis on avoidance and minimisation of impacts.
- Use of a precautionary approach.
- Requirement for long-term monitoring.
- Expectation of stakeholder engagement.

However significant areas of divergence include:

- PS6 uses globally applicable quantitative thresholds to identify criticality of some biodiversity values, whereas HCV uses locally determined, stakeholder driven thresholds.
- Non-critical 'Natural Habitats' are not included in the HCV approach.
- PS6 allows the possibility of conversion of [Critical Habitat](#) (CH is an area of global importance for biodiversity) given certain safeguards, including delivery of a net gain, potentially through the use of biodiversity offsets.
- The HCV approach gives greater weight to identifying ecosystem service values of importance to local users than PS6. However, PS6 includes company operational dependence on ecosystem service values, unlike the HCV approach.



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The Natural Habitat challenge

The most fundamental divergence between the HCV approach and PS6 is the requirement for no-net loss, where feasible, of 'Natural Habitat' in PS6 which has no analogue under the HCV approach. Some areas which meet the PS6 definition of Natural Habitat may not meet the threshold for HCV. Therefore if following an HCV approach alone these areas could feasibly be developed without any compensation, which would fall short of PS6 expectations.

The on-going integration of the High Carbon Stock (HCS) approach with HCV may offer an opportunity to improve alignment with the PS6 concept of Natural Habitat for high carbon stock ecosystems such as forest and peatlands, but other ecosystems like savannas or freshwater would remain unaligned.

Meeting PS6 requirements for Natural Habitat remains a potential barrier for agribusiness projects seeking to access PS6-contingent funding. Biodiversity offsets could be used to compensate for losses of Natural Habitat (or impacts to Critical Habitat-qualifying features), however in cases of large scale conversion of Natural Habitat, the scale of offset potentially needed might be unfeasibly large. It would be prudent for projects potentially operating in Natural Habitat to consider the opportunities for and barriers to alignment with PS6 early in the planning process.

The scale and margin challenge

Rigorous application of IFC's Performance Standards has been more widespread in sectors such as the extractive industries where the geographic **scale** of residual impacts and therefore the offset requirements are smaller than is typically the case in agribusiness. The heart of the matter is that the scale of an offset potentially required to compensate for large-scale conversion may be challenging in an agribusiness setting.

Compounding this challenge the tighter financial **margins** of the agribusiness sector restrict the means for implementing biodiversity conservation measures and compensation.

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Component	PS6	HCV
Types of biodiversity features	Critical Habitat (CH) includes rare and threatened species, ecosystems and landscapes, protected areas and internationally recognised areas, as well as guidance on other types of potential qualifying features.	HCVs 1-3 include rare and threatened species, ecosystems and landscapes, protected areas and internationally recognised areas, plus recognition of landscape level ecosystems, even if not intrinsically rare, or threatened.
	Natural Habitat (NH) explicitly captured.	NH in its own right not explicitly captured in HCV.
Spatial scope	Explicitly landscape ("Ecologically Appropriate Area of Analysis") scale for identification of priority features, and impact assessment.	Recent guidance encourages landscape scale, but in practice focus of HCV identification is often at the concession level. Some certification systems are more explicit on the landscape approach.
Quantities of biodiversity features	CH: Global quantitative thresholds for criteria 1-3, and emerging quantitative thresholds for criterion 4. No threshold for NH, identification can be subjective.	Global guidance is qualitative – focus on exceptional biodiversity with no global objective threshold. Some national guidance exists, but the level of detail and quality is very variable.
Mitigation hierarchy	Fundamental component of the standard. All steps are expected, including where necessary, offsets.	No specific mention of Mitigation Hierarchy in HCV guidance, or certification standards. Focus on avoidance and minimisation, some potential for restoration in forestry, no explicit mention of offsets.
Impacts for identified features	Avoid as far as feasible. Unavoidable impacts on CH acceptable if no "measurable adverse impact" and "no net reduction" in species populations. Unavoidable impacts on NH acceptable.	Some impacts may be acceptable if overall the value is maintained or enhanced.
Outcomes for residual impacts	Net Gain for CH. No Net Loss where feasible for NH.	"Maintain or enhance" HCVs. In practice often interpreted as "persists" rather than "maintain at same level" so not necessarily equivalent to No Net Loss.
Monitoring	Required – burden of proof on client to demonstrate effective mitigation. Explicit guidance for outcomes monitoring as well as implementation monitoring.	Required – emphasis on monitoring when impacts likely, in practice burden of proof is on stakeholders to demonstrate significance. Recent guidance recommends operational, strategic and threat monitoring, but in practice monitoring focuses on responses not outcomes.
Precautionary approach	Implicit.	Explicit .
Ecosystem services	Identification of 'priority ecosystem services' required. If impacts are predicted, mitigation measures should be implemented following the mitigation hierarchy. Explicit mention of services on which the project is dependent. Limited guidance provided on identification or definition of 'priority'.	HCVs 4-6 explicitly concern ecosystem services including the identification of critically important regulating, provisioning and cultural services. Only refers to services used by other people and not the proponent. Guidance on how to identify services 'critical' to needs or 'fundamental' for identity is limited.
Protected Areas (PAs)	Project needs to demonstrate compliance with national regulations if operating in a legally protected area, or internationally recognised area (IRA). PAs and IRAs are indicators of the potential presence of CH.	PAs and IRAs are considered indicators of HCVs. Some national interpretations include PAs and IRAs as HCVs. Also included in other parts of certification systems (e.g. RSPO 5.2, RSPO Next NDF 3.3).
Invasive Alien Species (IAS)	Project will not intentionally introduce IAS. Project will attempt to not spread IAS which were present pre-project.	Not considered in the HCV framework. Included in other elements of certification (RSPO 4.5, FSC 10.3).



Peatlands are globally threatened ecosystems (Critical Habitat criterion 4 and HCV 3), essential for biodiversity, as well as regulating water flow.

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Implementation and assurance processes differ

There are three significant differences in how PS6 and HCV are assessed, as well as how the actions implemented and the processes assured in practice (Figure 1 below). These differences may lead to notable variation on the ground in terms of the identification of biodiversity risks, and how effectively mitigation measures are implemented.

1. Guidance Note 6 is 'part and parcel' of the PS6 approach regardless of sector or geography. In contrast, the degree to which HCV guidance and processes are integrated into certification requirements varies considerably.
2. Alignment with PS6 is usually overseen by the lending institution's in-house specialists, whose oversight lasts beyond financial close into the implementation period. In contrast, assessment and implementation of HCV requirements are typically overseen by an external certification body and if external review occurs it is usually limited to the HCV assessment and not the resulting management plans or Standard Operating Procedures (SOPs). In-house oversight provides a more direct link to investment decision-making and frequently results in greater consistency as the same individuals are involved from early planning through to implementation.
3. Since there may be direct financial consequences (such as delays to disbursements) for failure to implement actions required to align with PS6 (the Environmental and Social Action Plan), companies seeking to align with PS6 typically appoint an Independent Environmental and Social Consultant to provide an external review of the level of alignment with the Performance Standards. This provides an extra level of oversight and motivation to achieve effective implementation. In contrast, the HCV approach does not impose direct financial penalties for failing to implement management actions.

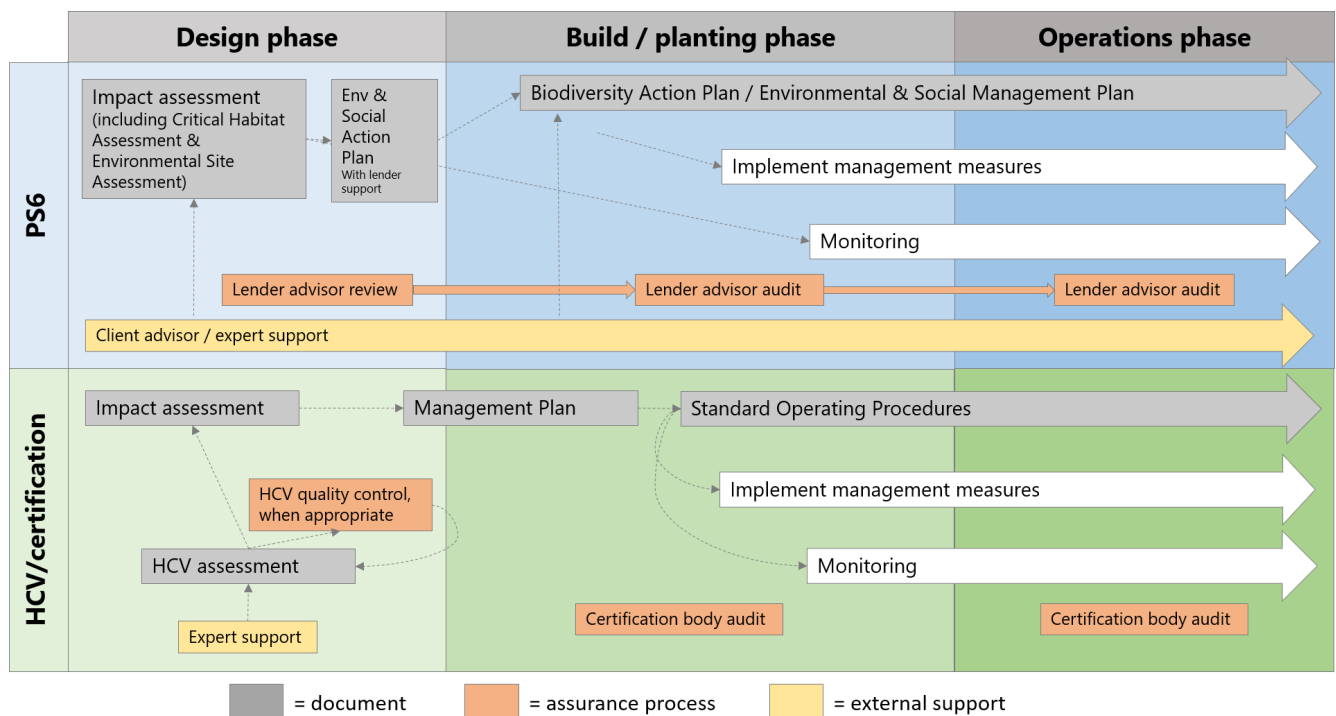


Figure 1: A comparison of generalised assurance processes for the IFC Performance Standards and certification systems suggests that a lack of continuity in expert support and auditing may be contributing to weaker conservation outcomes from certification systems.

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Implications and opportunities for alignment

This comparison suggests that while the HCV approach and PS6 have many conceptual elements in common, there are important areas of divergence. A thorough application of PS6 will likely meet most of the requirements of the HCV approach, but the converse is unlikely under current HCV guidance.

Lenders or certification bodies using the HCV approach and wishing to improve alignment with PS6 could do so by requiring that HCV assessments and associated management plans follow three steps:

1. Use an expanded spatial scope to meet the PS6 expectation of a landscape approach.
2. Use Critical Habitat thresholds, or KBA ([Key Biodiversity Area](#)) criteria, as a global threshold for HCVs.
3. Include a determination of Natural and Modified Habitats *sensu* PS6; and explicitly adopt definitions of 'maintain and enhance' that are aligned with the PS6 concept of 'net gain'.

The Biodiversity Consultancy works together with industry to achieve an ecologically sustainable basis for development by tackling complex biodiversity challenges and by supporting positive conservation outcomes.

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Speaking the same language

The Performance Standards and certification systems use a diverse range of terms, jargon and abbreviations. These can be confusing and sometimes have different meanings. For example, to many in the agribusiness sector BMP is *best management practice*, whereas in PS6 it is a *biodiversity management plan*. Using common terminology will greatly aid understanding of sustainability frameworks.

Additional resources

- PS6 and its associated Guidance Note can be found on the [IFC website](#).
- TBC has produced other IBNs providing further information on [Critical Habitat](#), [Ecosystem Services](#), and [Biodiversity Offsets](#).
- Guidance on the [identification and management & monitoring of High Conservation Values](#) has been produced by the [HCV Resource Network](#).
- TBC co-authored IUCN's report [No net loss and net positive impact approaches to biodiversity](#).

