1. Applicability

This sector profile is designed to help fund managers quickly familiarise themselves with the most frequent and important environmental, social and governance (ESG) aspects of investments in the retail sector. It aims to be a starting point for thinking about ESG risks and opportunities, and not a detailed technical guidance document.

- Using this sector profile
  A company can be affected by non-sector specific issues such as impacts on Indigenous Peoples and Cultural Heritage. Therefore, each company must be carefully considered based on its specific characteristics and circumstances including scale of operation, location, technology utilised, management capacity, commitment and track record, and supply chains. Additionally, environmental and social (E&S) impacts, risks and opportunities in a particular company or sector can change over time for a number of reasons (e.g. changes in the applicable laws, or expansion of a company's activities or assets). Fund managers should have systems in place to identify such changes and manage any associated risks and impacts and, where possible, capitalise on new opportunities.

  This sector profile draws on internationally recognised good practice standards and guidance, particularly the International Finance Corporation's (IFC's) 2012 Environmental and Social Performance Standards and the World Bank Group's Environmental, Health and Safety (EHS) Guidelines. The Profile identifies key standards are generally applicable to the sector (refer to Standards, guidelines and other resources section below. It is not a substitute for such standards, which should take precedence as authoritative sources and basic technical references. Applicable national laws and regulations should be taken into account and compliance with them should be regarded as the minimum acceptable performance standard.

  See the Environmental and social checklist and Governance and business integrity checklist for questions that fund managers should consider when evaluating a retail investment from an ESG perspective.

2. Scope of this sector profile
   This sector profile covers the distribution and sale of products through:
   - Large-scale supermarkets and chain stores.

- Individual retailers.
- Discount houses.

Business activities that fall within the scope of this sector profile include:

- Warehousing, cold store and distribution via road transportation of products within retail chains.
- Product sales and marketing.
- Shop fitting and design.
- Catalogue and online sales.
- Delivery services (via road transportation only) of products directly to consumers.

Greater detail on the ESG impacts and risks in this sector can be found in the World Bank Group General EHS Guidelines. More generic ESG considerations associated with manufacturing can be reviewed in the Sector profile: Manufacturing**.** For consideration of risks and impacts arising from construction or renovation of retail outlets, refer to the CDC Project Design and Construction Guide.

2. Key environmental and social aspects

This section outlines some of the specific risks and impacts that emerge from poor ESG practices.Weak management of these aspects may lead to reputational damage, have an impact on a company's capacity to raise funding (debt and equity) and, more broadly, negatively impact a company's financial performance. Conversely, sound E&S practices are likely to improve a company's reputation, access to investors and overall performance.

- Management commitment, capacity and track record
  Companies need management's commitment and sufficient capacity to ensure that the

necessary resources are available for sound E&S management. Refer to CDC guidance: Assessing companies' commitment, capacity and track eecord.

- Environmental and social management system (ESMS)
  Companies should develop and implement an ESMS commensurate with the level of risks and impacts associated with its activities. For further advice refer to E&S topic: Environmental and social management systems (company-level).

- Labour and working conditions
  Note – Occupational, health and safety is covered separately below.

Risks for the business	- Companies may face prosecution or fines (or have their licenses removed) if they fail to comply with labour laws and regulations. - Financial and legal risks can result from poor morale, high staff turnover and deterioration of employees' health (e.g. excessive working hours). - Low workforce moral and erosion of trust can lead to higher staff turnover, lower productivity and additional training and recruiting costs. Worker unrest due to poor contracting, low wages and poor working conditions create revenue and operating margin risks. - Brand damage can occur if labour and working conditions generate media interest and attention.
Opportunities for the business	- Costs can be reduced and productivity enhanced by upholding good labour and working conditions, which should also make it easier for the company to attract and retain motivated and competent workers. - Depending on the type of retail operation, there may be opportunities to improve labour and employment standards and practices more widely (e.g. in situations where a company has control over sub-leases in larger retail operations).

Wages: The sector is an employer of low-paid personnel. Workers should be paid at least the minimum statutory wage for the sector.

Good practice in this area can help to manage costs relating to recruitment, training and talent retention and maintain or enhance customer service and build the hospitality industry's reputation and overall business success.

Freedom of association and collective bargaining: Relations with unions and the rights of workers to enter free and voluntary collective bargaining arrangements with management (as well as the rights to form unions and to strike) may be sensitive subjects and require careful exploration and resolution. Adopting good international industry practice (GIIP) in this area can help to manage costs relating to recruitment, training and talent retention, and maintain or enhance productivity.

Discrimination: Companies should address potential discrimination by developing appropriate employment policies and practices. Good practice can help to manage costs relating to recruitment, training and talent retention, and maintain or enhance productivity.

For further general guidance on GIIP relating to labour standards and working conditions (in line with ILO Core Conventions), refer to E&S topic: Labour standards, IFC Performance Standard 2: Labor and Working Conditions at and IFC Good Practice Note: Non-Discrimination and Equal Opportunity.

- Occupational health and safety (OHS)

Risks for the business	- Companies may face prosecution or fines if workers or contractors are injured or killed. - Companies face reputation risk and loss of market share where poor OHS practices could lead to actual or feared product contamination or reduced product efficacy. - Damage to or loss of the company's assets, loss of production, loss of clients/business, increased insurance premiums and legal claims (both in the short- and long-term) can result from poor OHS practices. - Low workforce morale and erosion of trust can lead to higher staff turnover, lower productivity, additional training and recruiting costs and reputational damage.
Opportunities for the business	- Proactively involving workers and contractors in key decisions can help to identify and maintain good OHS practices, and improve their acceptance if new or significantly different to previous practices. - Quality of service can be improved and insurance premiums for workers' and compensation payments can be reduced. - Effective fire safety and emergency response standards to protect customers and surrounding community will foster stronger community and customer support.

OHS is an important consideration for any business, regardless of sector, and all companies must have in place appropriate OHS and emergency preparedness and response management systems, commensurate with level of risks.

If contractors are involved in operation and maintenance activities, companies should implement measures to ensure contractors work in accordance with applicable regulations and GIIP. Such measures should be covered in companies' OHS and emergency preparedness and response management systems.

Specific OHS risks associated with the retail sector can include those in connection with:

- Physical hazards, including repetitive strain injuries from loading and unloading goods, slips and falls (e.g. falls from height in storage areas and warehouses) and as a result of fixed tasks sitting for long periods of time.
- Till operators, who might suffer from physical tiredness from long or late working hours, working in confined spaces in warehouses or refrigerated areas, or from long hours standing).
- Vehicles and driver safety where logistics and transport form part of the investment.
- Exposure to heat (e.g. in-house supermarket bakeries).
- Exposure to cold (e.g. in cold storage facilities).
- Fire hazards, which vary depending on the activities. Life and Fire Safety is particularly relevant in this sector, not only from the workers' perspective, but also in relation to customer safety. These risks should be addressed during the design phase (when it is relatively straightforward to address them); it is generally more costly and complex to address them later through retrofitting.

For further sector-specific guidance, refer to Sector profiles on Manufacturing, Food and Beverages, Forestry and Plantations and Pharmaceuticals, depending on the type of product sales and retail network. OHS risks arising from construction of new retail outlets are covered broadly in CDC Project Design and Construction Guide.

For further general guidance on GIIP relating to OHS, refer to E&S topic: Occupational health and safety, IFC Performance Standard 2: Labor and Working Conditions, World Bank Group General EHS Guidelines and CDC Good Practice: Preventing Fatalities and Serious Accidents.

- Resource efficiency and pollution prevention

Risks for the business	- Fines and penalties can be imposed for non-compliance with national pollution prevention regulations. - Excessive expenditure on energy and water supply. - Excessive expenditure on management of solid waste (including off-site waste disposal), air emissions (refrigeration and distribution networks) and wastewater quality. - National pollution prevention standards may become more stringent over time in markets where the current legislation is not aligned with GIIP, requiring changes to packaging or overall product design and manufacture, or the need to source new suppliers.
Opportunities for the business	- Lower operating costs, reduced environmental footprint, better preparedness for resource shortages or increased cost of resources can result from adopting energy efficiency, water efficiency and cleaner production measures. - Use and, where possible, recycling of packaging with lower environmental footprint and reduced transportation and waste management costs. - Better preparedness for potentially costly regulatory changes such as modifications in packaging requirements. - Careful storage and distribution management (including ‘no-loss staff incentivisation’), as well as a tightly managed returns process, can significantly minimise financial losses due to damaged products, breakages, and rejects. - Effective demand-side management and control of the product flow through the supply chain can ensure that final products reach consumers without delay, and help to avoid excessive redundant stockpiles (end of season ranges, expired foodstuffs etc.) requiring addition disposal expenses. - Local sourcing, chain of custody assurance for some foodstuffs, and certification can be effective ways to promote links with local communities/local products and to service demand for more sustainable production.

Energy efficiency and air emissions: The major sources of air emissions in the retail sector arise from refrigeration units in food stores and from vehicle exhausts during distribution.

Retailers should always consider energy efficiency measures at the design, construction (see CDC Project Design and Construction Guide) and operation phases, as this could have a substantial positive impact on revenues by increasing the net energy conversion ratio (i.e. energy output per unit of energy/fuel input). Moreover, air emissions regulations are generally becoming more stringent globally. Companies should be mindful of this trend and explore business opportunities associated with the use of cleaner technology and/or energy efficiency measures (e.g. on-site renewable energy generation such as solar power). Efficiency and cost savings can also be achieved by minimising distribution transport requirements (e.g. by co-location with key suppliers, encouraging local sourcing of products, and minimising or redesigning packaging).

Water management: Wastewater streams from retailers generally have the same composition as domestic effluent, and originate from cleaning activities and ablution facilities.

Companies should explore opportunities to reduce water consumption (e.g. the use of closed-loop water systems). This is particularly relevant when water consumption is significant and/or water availability is restricted. Water use efficiency measures will have a positive effect in terms of reducing the amount of wastewater generated and hence, wastewater treatment costs and/or discharge fees.

In certain situations rainwater harvesting can be used to offset demand for landscape maintenance and other non-potable uses of water, as well as to reduce overall demand on utility supply.

Waste management: Depending on the type of retail operation, there may be opportunities to leverage recycling and waste management efficiencies through the development of asset-level waste management and recycling commitments.

Product packaging is the main source of waste for retailers, alongside defective, damaged or reject product, which should be returned to the supplier where possible. Companies should explore product design and packaging with retailers, as even minor design changes canminimise waste and help reduce production costs, post-consumer environmental impact (e.g. recycling issues, biodegradability) and transport costs.

Careful storage, handling and distribution of products can also reduce waste generation as a result of less product damage. A key contributor to waste reduction in any retail operation is successful demand prediction and ordering. Oversupply can lead to the need for under-pricing to remove stock, holding expensive stock, or expiry of products (especially food).

Where even relatively small volumes of potentially hazardous wastes are generated (e.g. used machinery oils in truck distribution yards, or damaged electronic goods where these cannot be returned to the suppliers) the company must ensure that these are stored, handled, transported and disposed of according to GIIP.

For further general guidance on GIIP relating to resource efficiency and pollution prevention, refer to E&S topic: Resource efficiency, E&S topic: Pollution prevention, IFC Performance Standard 3: Resource Efficiency and Pollution Prevention, and World Bank Group General EHS Guidelines.

- Community health, safety and security

Risks for the business	- Licence to operate can be put at risk if appropriate Life and Fire Safety (LFS) measures are not put in place. - Licence to operate can be put at risk if community concerns and relations are not well managed, particularly concerns regarding health and safety risks arising from physical hazards, air emissions and odours, increased traffic and vehicle movement, and waste generation from retail operations or the influx of labour for new large retail operations. - Reputational damage and significant management costs can be incurred to address social opposition and criticism due to perceived or actual health and safety risks.
Opportunities for the business	- Building relationships with local communities may yield benefits in terms in increasing production through access to a better or bigger labour pool. - Local sourcing of product (especially foodstuffs) creates links to local producers.

Emergency preparedness and response: Companies must implement emergency preparedness and response systems to respond to emergencies associated with the company’s activities in a manner appropriate to prevent and mitigate any harm to people and/or the environment.Companies should develop these systems in collaboration with appropriate and relevant third parties (e.g. local authorities).

Life and Fire Safety (LFS): These are key considerations in the retail sector. All buildings that are used by the general public must have the highest standards of LFS. Adequate LFS should be taken into account at the design and construction phases, as it may be costly and complex to retrofit. An appropriate monitoring and maintenance system should be implemented during operations.

For all retail premises, as well as the large-scale storage and warehousing of products that can pose fire risks due to the nature of the product or packaging, companies must design and implement emergency response measures and plans focussed on protecting the public (e.g. clearly signposted evacuation routes and smoke detectors and sprinklers installed).

Health: Community health risks posed by the retail sector are generally associated with poor waste storage, particularly food or hazardous waste (e.g. chemicals), as well as food contamination. Design and operation of retail networks should pay attention to minimising health and nuisance risks and impacts to neighbouring communities associated with waste collection and disposal.

Traffic and transport (road transportation): Large retail assets are likely to generate significant increases in traffic due to deliveries, waste collection and customer access with attendant noise, air quality and health and safety risks to local communities. In these cases, companies should implement traffic management plans commensurate with the expected risks and impacts. Opportunities to reduce these risks and impacts should be considered (e.g. promote the use of public transport). The growth and economic costs of urban traffic congestion mean that traffic management is likely to become a more important aspect of retail operations in the short term.

Security: Some retailers may engage security personnel at retail outlets, while most large-scale retail warehouses employ security due to the risk of theft. The use of security personnel and security screening procedures is likely to increase in many emerging markets for a number of reasons. Companies should be guided by the principles of proportionality, good international practice and applicable law in relation to hiring, rules of conduct, training, equipping, and monitoring of security personnel, as set out in the general guidance below.

Hygiene/Food Safety: Facilities should be cleaned regularly to ensure a hygienic environment. Where the company provides (directly or via contractors) catering services, appropriate food safety standards in accordance with GIIP should be followed.

For further general guidance on GIIP relating to community health, safety and security, refer to E&S topic: Community health, safety and security, IFC Performance Standard 4: Community Health, Safety and Security, UN Code of Conduct for Law Enforcement Officials, UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials and Voluntary Principles on Security and Human Rights.

- Supply chains

Risk for the business	- Financial risks due to products being banned or excluded from markets due to health, food safety and contamination, animal welfare, ethical, governance or environmental concerns. - Reputational risks linked to the sourcing of products from unsustainable supply chains (as seen in the textile industry among others) and/or providers who do not meet basic international standards and conventions (e.g. concerns around production techniques, labour, contamination, sanitation, or linked to health concerns around sourcing).
Opportunities for the business	- Collaborate with, and, where possible, train suppliers to improve E&S management measures. This could lead to improvements in resource use sustainability, higher productivity and product quality, and/or stronger and better relationships with suppliers. - Access to markets where approved supplier programmes (e.g. sustainability certifications) include E&S requirements and/or where customers take into account sustainability factors when purchasing products (e.g. Ethical or Fairtrade).

The adequacy and sustainability of supply chains can be an important business success factor for some retailers because: (i) E&S risks can have an impact on the operations of the suppliers (e.g. poor OHS practices can lead to delays in supplying goods) and, hence, negatively affect retail companies; and (ii) the reputational risks of being associated with poor E&S or ethical practices.

Where the company can reasonably exercise control, its ESMS and supply chain policies should seek to identify and manage such risks and impacts, and promote the sourcing of local and/or sustainable products. Certification systems (e.g. Forest Stewardship Council – FSC or SA8000) provide some assurances of the provenance and E&S standards associated with production.

Where control of risks is not possible (insufficient influence via supply chain leverage or relations), companies should at least gain an understanding of the scale, type and significance of E&S issues involved. This will allow them to assess the risks associated with continuing the relationship with supplier. Companies may wish to explore alternatives if the risks are considered significant.

For further general guidance on GIIP relating to supply chains, refer to the E&S topic: Supply chains, Sector profile: Manufacturing and IFC Performance Standards.

3. Business integrity considerations

Fund managers should ascertain and continue to ensure that every company (regardless of sector) complies with the fund's business integrity requirements. For further information see Business integrity.

- Business integrity issues specific to the retail sector
  Retail is typically considered a high-risk sector since corruption is a major obstacle to doing business in many of the countries where retail investment is highest. Beyond general country risk, the sector's high level of interaction with government officials, risky third parties, and competition with the black markets are all areas of concern. Companies should develop clear guidance and provide regular training for all employees on avoiding bribes and facilitation payments.

4. Advice for Fund Managers

See also the Environmental and social checklist and Governance and business integrity checklist and Investment cycle.

- Sector risk overview
  Several ESG issues may be material to the long-term value of retail companies, depending on the specific circumstances and geographies. Fund managers can expect

to find that while the ESG risks and impacts may be complex, they can usually be readily addressed by applying widely used, proven techniques and management practices (although this will need to be assessed on case-by-case basis). External consultants may be engaged to advise on ESG matters, depending on, inter alia, the nature, scale and location of a company's operations, its track record and the fund manager's expertise and capacity to conduct appropriate E&S due diligence.

- Scoping considerations
  In addition to the aspects highlighted above linked to the company's assets, activities and workers, fund managers should take into account the following during the life of the investment, from screening to exit:
  - **Associated facilities:** Not very common in this sector although some large retail operations may need associated facilities (e.g. new, or expansion of existing, access roads to a large shopping mall).
  - **Contractors:** Whose operations present significant E&S issues which could have an impact on the business (e.g. contractors providing security services).
  - **Supply chains** that present significant E&S risks and impacts. Even where a company cannot directly address risks because it lacks leverage or commercial influence, it is important that fund managers are aware of the risks. For further guidance on supply chains, please refer to E&S topic: Supply chains.

- Situations requiring extra attention
  Extra attention, longer timescales and more intensive ESG due diligence may be required in more complex situations. This may result in the fund manager engaging external experts (see CDC Guidance: Working with Consultants)to conduct a gap analysis against the applicable local and international E&S standards (typically IFC Performance Standards and World Bank Group EHS Guidelines).

  Examples of activities or Projects in this sector include:

  - Greenfield retail developments or major expansions where the scale of the operation has significant potential risks or impacts (e.g. large-scale wholesale or retail operations and associated infrastructure and services).

- ◦ Situations where Life, Fire and Safety measures may not be compliant with GIIP. All retailers and particularly their warehousing storage facilities should develop and maintain a high level of emergency preparedness, including identification of worst-case scenarios and designation of emergency response procedures and teams. Evacuation plans including escape routes, as well as containment strategies and equipment, should be regularly evaluated and tested.
- ◦ Small-scale retail outlets where budgeting and cash flow challenges may override the need for correct hygiene factors, product storage or waste control, resulting in E&S risks to surrounding communities or the environment.
- ◦ Discount stores and retail operations: Retailers that sell particularly cheap products which may be sourced from factories utilising cheap labour and with poor working and labour practices. Also retail activities that focus on textiles, seafood, timber products or food, as these sectors can be associated with primary production/processing involving poor labour practices or significant environmental impacts (including habitat and biodiversity impacts).
- ◦ Transactions/geographies with high business integrity risks.
- ◦ Any activities or Projects involving involuntary economic and/or physical displacement of communities or significant adverse impacts on biodiversity or ecosystem services, Indigenous Peoples, cultural heritage, or local communities. There are no intrinsic features of the retail industry that predispose the sector to be associated with these types of impacts and risks (other than through the primary supply chain); however, these issues may arise on occasion and should be managed in accordance with the applicable IFC Performance Standards.

5. Standards, guidelines and other resources

For authoritative guidance, fund managers should consult the applicable IFC Performance Standards and World Bank Group EHS Guidelines.

- Applicable IFC Performance Standards
  The IFC Performance Standards most commonly applicable to investments in this

sector are:

- IFC 2012 Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC 2012 Performance Standard 2: Labor and Working Conditions
- IFC 2012 Performance Standard 3: Resource Efficiency and Pollution Prevention
- IFC 2012 Performance Standard 4: Community Health, Safety and Security

In addition, other IFC Performance Standards may be applicable depending on the specific characteristics and locations of a company's operations. The screening stage of the fund manager's ESG due diligence should always include a routine check for the potential presence of significant impacts covered by IFC Performance Standards.

- Applicable World Bank Group EHS Guidelines
  - World Bank Group General EHS Guidelines

- Additional references, standards and guidelines
  The most relevant World Bank Group EHS Guidelines in this sector are:

  Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES).

  - Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES).
  - Transparency International.

A range of retail products can now be certified as having been produced according to specified environmental sustainability standards, or good labour standards and working conditions, or both. This provides consumers with the ability to choose more 'sustainable' or 'ethical' products if they wish. There may be opportunities to deliver such products in retail operations and fund managers should consider the following potential certification options.

- Ethical Trade Initiative.
- Fairtrade International.
- European Eco Label European Eco Label.
- Business Social Compliance Initiative (BSCI).