

ENVIRONMENTAL AND SOCIAL REVIEW PROCEDURES MANUAL

Environment, Social and Governance Department



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TERM	DESCRIPTION
ACS	Administrative Client Support assigned to a unit to provide administrative support in investment appraisal and supervision activities.
Action Plan	The Environmental and Social Action Plan (ESAP) or Action Plan (see Performance Standard 1). "The Action Plan will (i) describe the actions necessary to implement the various sets of mitigation measures or corrective actions to be undertaken; (ii) prioritize these actions; (iii) include the timeline for their implementation; (iv) be disclosed to the affected communities; and (v) describe the schedule and mechanism for external reporting on the client's implementation of the Action Plan."
Action Plan Tracker	Software tool in Lotus Notes enabling creation and active management of ESAPs and tasks. In addition the ESAP when completed and approved migrates automatically to the ESRS. During Supervision, when the status of each ESAP task has been updated and then approved, these data will flow to the IFC Disclosure Website to disclose completion status of each task consistent with the requirements of the 2012 AIP.
Additionality	The development impact that will be achieved because of IFC's participation in a project. This is articulated in the Board Paper.
Advisory Assignment	A financial or policy advisory assignment where IFC proposes to carry out an activity for a fee.
AEPR	
AIP	
AMR	The Environmental and Social Annual Monitoring Report (AMR). Report scope and content are agreed between IFC and the client, and may in some vases be included in the investment contract. The AMR helps IFC assess on a yearly basis the E&S risk of the project and revise and update the ESRR score (Environmental and Social Risk Rating). In order to ensure that the corporation maintains a quality E&S portfolio, the CRC (Corporate Risk Committee) has approved a capture rate of 90% for Annual Monitoring Reports (AMR).
AMR-CR	Annual Monitoring Report Capture Rate (AMR-CR). The AMR-CR defines the % of IFC active portfolio clients with reporting covenants in the investment contract whose most recent AMR was received within the last 12 months. The total number of portfolio clients with the obligation to report excludes those: without E&S reporting covenants; with \$0 outstanding balance; in SOU, litigation or liquidation; that have received supervision waivers; and, with a 1st disbursement <15 months previously.
Applicable Performance	All IFC Performance Standards (PSs) are applicable to projects as stated by investment contract covenants. In the case of Financial Intermediaries (FI), this

Requirements	may be the combination of an exclusion list, the national laws and regulations, and the IFC PSs in general, including specific elements of the IFC PSs that are identified during the review, and that are applicable to sub-projects supported by the FI and implemented through the FI's Environmental and Social Management System.
Area of Influence	The Area of Influence, defined in PS 1, encompasses (i) the primary project site(s) and related facilities that the client (including its contractors) develops or controls; (ii) associated facilities that are not funded as part of the project and whose viability and existence depend exclusively on the project; (iii) areas potentially impacted by cumulative impacts from further planned development of the project; and (iv) areas potentially affected by impacts from unplanned but predictable developments caused by the project that may occur later or at a different location.
AS	Advisory Services.
BCS	Broad Community Support, a collective expression by the affected communities, through individuals and/or their recognized representatives, in support of the project. There may be broad community support even if some individuals or groups object to the project.
BTO	Back to Office reports summarize findings and recommendations formed from site appraisal visits (SAVs) or site supervision visits (SSVs). As a Recordable Supervision Activity (RSA), the BTO serves as an E&S specialist activity that results in an updated understanding of a portfolio project's E&S performance.
CAO	The Compliance Advisor/Ombudsman provides a mechanism to enable individuals and communities affected by IFC projects to raise their concerns to an independent oversight authority.
Categorization	Assigning category A, B, or C to mainstream or FI-1, FI-2 or FI-3 to FI investment projects.
Category A	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible, or unprecedented.
Category B	Projects with potential limited adverse social or environmental impacts that are few in number, site-specific, largely reversible, and readily addressed through mitigation measures.
Category C	Projects with minimal or no adverse social or environmental impacts.
Category FI	Investments in a financial institution or other legal entity whose primary business activity is to provide loans, equity, guarantee products or other

	financing to third parties that may engage in activities that have potential environmental and social (E&S) impacts. This category is further divided into the following.
Category FI-1	When an FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
Category FI-2	When an FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
Category FI-3	When an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.
CEET	Carbon Emissions Estimator Tool.
CES	IFC's Environment, Social and Governance Department; the integration of environment, social and corporate governance (ESG) activities supporting IFC investment activities.
CESI	The Investment Support Group of CES that is responsible for the E&S due diligence and supervision of IFC's investment projects.
CESI Sector Lead	Senior staff responsible for approval of disclosure documents prior to release to the IFC Disclosure Website in accordance with the Access to Information Policy (AIP)
CESI LESS and SESS	Lead Environmental and Social Specialist (LESS) and Support Environmental and Social Specialist (SESS); the E&S specialist and proxy supporting the investment project project team.
CESI Regional Team Leader (RTL)	Senior CESI staff responsible for supervision and assignment of LESS and SESS in the iDesk Core Team for investment projects;
CESI Team for AS Support	Established to assist with coordination of CESI assistance to AS projects needs.

CESI Team Leader for AS Support	Coordinates with ITL or RTL to ensure appropriately qualified CESI staff is assigned to proposed High Risk AS projects, and oversees delivery of E&S services for AS projects.
CFN	IFC's Private Equity and Investment Funds Department.
CGF	IFC's Global Financial Markets Department.
CO ₂	Carbon dioxide.
COC	Corporate Operations Committee.
COD	Condition of Disbursement.
Commitment	The stage in the IFC project cycle once the legal agreements have been signed.
Corporate Investment	A transaction in which (i) the use of proceeds is not limited to specific assets and the application of which is at the discretion of company management; (ii) the proceeds are for specific corporate activities (e.g., restructuring, financial engineering, long-term strategic support, or corporate-wide investments); or (iii) IFC is making a subscription for shares in a private company.
CRD	Company Reference Database.
CRM	Concept Review Meeting.
Direct Investment (Classification)	Investment made by IFC in a company or other legal entity where the investment proceeds are utilized by that company or legal entity or their subsidiaries and/or affiliates.
Director CES	Director of IFC's Environment, Social and Governance Department.
DOTS	The Development Outcome Tracking System tracks the overall development outcome of IFC projects by assessing the following components throughout the project life cycle: (i) financial performance; (ii) economic performance; (iii) E&S performance; and (iv) broader private-sector development impacts.
E&S	Environmental and social, including occupational health and safety.
E&S Category	The environmental and social category serves as an indication of the nature and extent of potential E&S impacts that the project is expected to have and indicates the IFC institutional disclosure requirements. See Categories A, B, C, and FI above.

EA	Environmental assessment is a generic term covering various types of assessment processes such as Environmental Impact Assessment, Strategic Environmental Assessment, environmental analyses, environmental audits, and due diligence.
EHS	Environment, health and safety.
EHS Guidelines	Environmental Health and Safety Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice, defined in PS 3 on Pollution Prevention and Abatement. The general EHS Guidelines contain information on cross-cutting EHS issues potentially applicable to all industry sectors. The general EHS Guidelines should be used together with the relevant industry sector guideline(s).
ESAP	Environmental and Social Action Plan. See <i>Action Plan</i> , above.
ESCM	The Environmental and Social Clearance Memorandum that is prepared by the Lead Specialist for Category A and B projects.
ESDD	
ESMS	<p>The Environmental and Social Management System. The documented or implemented assessment and management elements that enable the client to meet the requirements of the IFC PS, including policy and procedure, E&S assessments and implementation, organization structure, E&S management program, technical and management capacity, training, community relationships, financial resources, E&S monitoring, and reporting.</p> <p>In the case of FIs, this refers to the elements of the ESMS, and includes FI E&S policies and review procedures, E&S organization structure, financial and human resources, and internal and external E&S reporting that are required to apply IFC PS1 and PS2 to the FI's internal operations and the Applicable Performance Requirements effectively in sub-projects.</p>
ESMS Action Plan	The Supplemental Actions to be taken by an FI client according to a timetable to develop or upgrade its ESMS consistent with the Applicable Performance Requirements.
ESRD	The Environmental and Social Review Document that covers analysis, and decision-making from due diligence through supervision until the project is closed. The ESRD will include E&S ratings of the Performance Standards and tracking of project attributes; a subset of this will be incorporated in the DOTS.
ESRP	Environmental and Social Review Procedures. Individual ESRPs in the E&S Review Procedures Manual principally address appraisal and supervision of mainstream and FI investment projects.

ESRR	Environmental and Social Risk Rating (ESRR). Category A , B and selected FI projects are scored at the end of appraisal and during supervision (see below). Category C projects and Category FI-3 projects are not scored. Calculated ESRR scores range from 1-4 with 1: Excellent; 2-Satisfactory; 3: Partly Unsatisfactory; and 4: Unsatisfactory.
ESRR _(A)	The Appraisal Environmental and Social Risk Rating considers Management Factors, Performance Factors, and Communication Factors once all data required for appraisal has been collected and analyzed. The purpose of the ESRR _(A) is to establish a baseline ESRR rating to express the status of the client <u>before</u> IFC intervention and implementation of remedial measures contained in the Action Plan. The ESRR _(A) baseline will be compared or contrasted side-by-side over time to the ESRR _(S) to illustrate the impact of IFC's intervention throughout the project life in IFC's portfolio.
ESRR _(S)	The Supervision Environmental and Social Risk Rating considers Management Factors, Performance Factors and Communication Factors focused on the client's performance, compliance with the Action Plan and other IFC requirements throughout the project life in IFC's portfolio. The purpose of the ESRR _(S) is to illustrate the impact of IFC's intervention throughout project life in portfolio.
ESRS	The Environmental and Social Review Summary is the document through which IFC publicly discloses how the E&S aspects of a project were reviewed and the rationale for categorization. It includes a description of the main E&S risks and impacts of the project, and the key measures identified to mitigate those risks and impacts, specifying any actions needed to undertake the project in a manner consistent with the PS and that will be included in the client's Action Plan. The ESRS is written for a general public audience.
Exclusion List	Put link? // include specifics to FIs (restricted activities)
External Expert	An expert appointed by the client to assist with its assessment or other tasks or by IFC to help with its review or supervision activities.
FI	Financial Intermediary or Financial Institution.
FI BTOR	
FIG	
Financing Agreement	A generic term referring to the legal agreement (e.g., Investment, Subscription, Participation, and other agreements) that IFC enters into with the client that defines the terms of financing. See <i>Investment Contract</i> below.
FPIC	Free, Prior, and Informed Consent.

Global Trade Finance Program (GTFP)	GTFP projects are guarantees to support import and export transactions that extend to political and commercial payment risks (though excludes documentation risk), pursuant to the terms of the specific trade facilitation instrument associated with the transaction (e.g., Letter of Credit, Promissory Note, etc).
GPOBA	Global Partnership for Output-Based Aid. An AS type investment carried out jointly with the IBRD for which IBRD reviews and approves IFC's due diligence and documentation.
HRL	The E&S High-Risk List (HRL) is a group of projects that require closer scrutiny and supervision due either to highly significant E&S risks or because the projects have attracted the attention of third parties, such as Civil Society Organizations (CSO) and project-affected people and/or media for alleged E&S shortcomings, impacts, and associated reasons.
High Risk Projects	<ul style="list-style-type: none"> • Projects that have PS issue(s) that either cannot be mitigated or will not be mitigated for a long period of time; • Projects that trigger a significant and/or exceptional PS issue; • All projects that are open Office of the Compliance Advisor/Ombudsman (CAO) cases; • All projects with an Environmental and Social Risk Rating (ESRR) of 4; • Selected projects with an ESRR of 3 that encompass very significant E&S risks and/or with a sponsor that has demonstrated very poor E&S management or performance; and • Projects that have attracted negative Civil Society Organization, public, or media attention for perceived E&S risks; and/or events and/or activities.
IBRD	International Bank for Reconstruction and Development.
ICP	Informed Consultation and Participation.
iDocs	The integrated and web-enabled workspace for IFC operations; serves as the electronic repository of IFC's project records and documents.
IEG	Independent Evaluation Group.
IFC-Managed Advisory Services Facilities	<p>Facilities or activities that are managed by IFC and that are set up with or use some combination of donor funding, IFC grant funding, or third-party funding to support specific regional or sectoral activities. Activities include providing technical assistance, special financing, advisory services, and training.</p> <p>AS Facilities include all the Private Enterprise Partnerships and Project Development Facilities within IFC, as well as all donor-funded facilities set up to support business in specific areas such as Carbon Finance.</p>

InfoShop	The World Bank InfoShop, which allows interested parties to request and obtain publicly available information about IFC's investments. The InfoShop deals only with requests for specific documents (including ESRs, SPIs and E&S reports), not with blanket requests for information related to the World Bank Group.
Investment Contract	A generic term referring to the legal agreement (e.g., Investment, Subscription, Participation, and other agreements) that IFC enters into with the client that defines the terms of financing. See <i>Financing Agreement</i> above.
IRM	Investment Review Meeting. After completion of a project appraisal, the Director or a manager of an IFC Investment Department or a regional Director chairs this meeting, which is the basis for IFC management approval of the project. The full project team attends the IRM, as appropriate.
IS	Investment Services.
Knowledge Gap Projects	<p>Projects that were disbursed 15 or more months previously that do not yet have an ESRR_(S) score; and, projects with an ESRR_(S) score older than two years.</p> <p>The definition applies to projects with an existing balance of more than \$0, with or without reporting requirements, but, it does not apply to Category C Projects.</p> <p>IFC's 2009 Annual Report defines Knowledge Gap as companies in IFC's portfolio for which we have not received updated information on environmental and social performance within the last two years.</p>
LESS	The Lead Environmental or Social Specialist is responsible for leading and managing the E&S review of a proposed investment in collaboration with the Support E&S Specialist (SESS) and as needed other E&S environmental specialist(s) on the project team.
Manager CESI	The Manager(s) of the CES Investment Support Group (CESI1 & CESI2).
Market Instrument	A financial instrument where the instrument holder has limited or no influence over the operations of the issuer of the instrument. This may include listed equity, commercial paper, bonds, and other debt or equity instruments that are traded in the market.
MIGA	Multilateral Investment Guarantee Agency provides political risk insurance for investments in developing countries.
MOR	Monthly Operations Report included in the PDS-Concept. An abbreviated

	version of the information presented in the PDS-Concept that is provided for Executive Directors.
PDS-Concept	Project Data Sheet - Concept; A formal document presenting the investment concept; this is the starting point for moving investments through the IFC project cycle.
PDS-IR	Project Data Sheet - Investment Review. Summarizes the outcome of the investment department decision meeting.
PRM	A Peer Review Meeting is typically held during the early stages of appraisal for all Category A projects, and for Category B projects that have unique or difficult issues. The purpose of a Peer Review Meeting is to achieve consistency in professional judgment and for CESI Specialists to learn from one another.
Policy	IFC's policy on E&S sustainability.
Project Attributes	Project information and indicators collected for all investments in order to determine the E&S characteristics and footprint of the portfolio. This information is then used to track issues over time and to communicate the E&S impacts and outcomes of our investments.
Project Data Sheet (PDS)	A document prepared by the project team that contains a project description, and details of the potential investment, highlights any policy issues and potential deal-breakers, reviews IFC's role in the project and development impact, and outlines issues and policy concerns (including provisional project categorization). The PDS is continually updated during project appraisal. The Decision Book and financial models are key decision documents for the Investment Review Meeting.
PSs	IFC's Performance Standards on Social and Environmental Sustainability.
PSR	Project Supervision Report. Annual summary of project financial, economic, and environmental status.
QA	The Quality Assurance component of CES's Policy and QA Department responsible for design, maintenance and continuous improvement of internal systems to maintain the desired level of quality in IFC E&S review of investment projects applicable to appraisal and supervision.
Regional Team Leader	See CESI RTL. Senior CESI staff responsible for supervision and assignment of LESS and SESS in the iDesk Core Team for investment projects;
Retail Operations	For an FI where the financing or financial service is provided only to individuals, such as credit cards, personal loans, home loans, and vehicle leasing.

Recordable Supervision Activity (RSA)	Any E&S specialist activity that results in an updated understanding of a portfolio project's E&S performance (e.g. obtaining and reviewing AMRs, recorded site visit, client meeting, stakeholder meeting or conference call).
ROC	
Rules and Tools	Repository for management-approved E&S review procedures (ESRP Manual) document formats, data collection, and analytical tools for appraisal and supervision. Located at <i>ifccesrulesandtools</i> on the IFC Intranet through a link on the Lotus Notes CES Workspace under the Project Resources tab. Ultimate location will be MySKN.
SAV	Site Appraisal Visit
Sector Lead	See CESI SL. Senior CESI staff responsible for approval of disclosure documents prior to release to the IFC Disclosure Website in accordance with the Access to Information Policy (AIP);
SEMS	Social and Environmental Management System
SEDDR	Social and Environmental Due Diligence Report, the environmental and social review report prepared by an IFC FI client with respect to a borrower that shall include review and assessment of environmental (occupational and community health and safety) and social (labor, land use and local communities) risks and impacts by applying the SEMS mitigation measures proposed to address such risks and impacts, and the Bank's loan approval conditions. The SEDDR shall also include key relevant documents, such as Environmental Assessment(s) prepared by the borrower, corrective action plans, environmental and social management plans and other material information collected or prepared during the due diligence process.
SEPR	Social and Environmental Performance Report, the E&S Performance Report provided by an FI client.
SESS	Support E&S Specialist (SESS) is the proxy for the less and responsible for assisting and contributing to the E&S review of a proposed investment in collaboration with as needed other E&S environmental specialist(s) on the project team.
SII	
SPI	Summary of Proposed Investment, a document prepared by the Investment Department and publicly disclosed in accordance with IFC's Disclosure Policy.
SSV	Supervision Site Visit.

SSV Plan	A plan drafted by QA that lists investment projects in supervision for which a SSV will be carried out during the Fiscal Year.
Standalone AS	Facilities or activities that are managed by IFC and that are set up with or use some combination of donor funding, IFC grant funding, or third-party funding to support specific regional or sectoral activities. Activities include providing technical assistance, special financing, advisory services, and training, but only those that are not related to a Direct Investment project.
Supervised Project	A project for which the ESRR score, PSR language and DOTS rating have been updated as a result of a Recordable Supervision Activity(s). Projects should be supervised at least once a year.
Supplemental Actions	Additional or corrective actions to be taken by the client and incorporated into the Action Plan to address any gaps in the project meeting, the IFC performance requirements, or as a result of new information.
Sustainability Framework	Policy on Social and Environmental Sustainability; Performance Standards; Guidance Notes; Policy on Disclosure of Information; General EHS Guidelines, and Sector-Specific EHS Guidelines.
Technical Discussions	Similar to a Peer Review Meeting, but focused on a narrow issue with selected experts on that particular issue(s).
Tip Sheet Compendium	
TL (Industry/Regional)	Team Leaders within CESI who are responsible for the CES specialists working with specific Industry Departments. Roles and responsibilities are defined in <i>CES Delegated Authority Matrix for Implementation of the ESRP</i> .
TOR	Terms of Reference. The scope of goods and services to be provided in a of service contract.
TRL	The Transaction Leader is the representative of IFC's Investment Department who is responsible for managing the overall transaction for an investment or advisory project.
Transboundary Issues	Include air and other pollution that crosses political, governmental, or geographical boundaries; abstraction of water from or pollution of international waterways; and disputes where issues can yield tension among states, including drug trafficking, population migration, support to insurgency movements, organized crime, and energy or economic development projects situated near the border.

VP	Vice President.
XPSR	Expanded Project Supervision Report. The XPSR is a five-year retrospective review of IFC's investment. The report examines anticipated vs. actual outcomes and suggests lessons learned.

ESRP 1. ENVIRONMENTAL AND SOCIAL REVIEW PROCEDURES MANUAL

1. Purpose and Applicability

1.1 Purpose: Management-approved environmental and social (E&S) appraisal and supervision guidance for investment activities contained in this E&S Review Procedures (ESRP) Manual is an essential component of the larger IFC and the specific CES risk management system. The Manual describes how CES conducts its due diligence for the business activities under consideration. IFC's Performance Standards (PS) define the performance outcomes of the client throughout the life of the project, and the ESRP Manual provides a structured approach for CES to monitoring and recording client performance. The structure of the procedures follows the typical chronology of events in the investment project cycle. However, the sequencing may vary to satisfy specific project needs (e.g. the sequence of IRM and ESRS disclosure).

1.2 Applicability: A fundamental part of IFC's mission is its commitment to sustainable development. IFC's Sustainability Framework (SF) is the foundation of this commitment and includes the Policy on Environmental and Social Sustainability, which defines IFC's commitments to environmental and social sustainability; the Performance Standards, which define clients' responsibilities for managing their environmental and social risks; and the Access to Information Policy, which articulates IFC's commitment to transparency. The Risk Management System Manual (see Rules and Tools RMS Manual) provides an overview of the structure of the CES management system of which the ESRP Manual is a fundamental piece. It presents the risk management policy and defines the broad responsibilities of staff within CES who contribute to the workings of the CES Department.

This ESRP Manual incorporates procedures that CES specialists follow to consistently implement the requirements of the SF and complements IFC's Operational Procedures.

The ESRP Manual applies to the full range of IFC's investment activities, such as direct lending to private enterprises including corporate and project finance; lending to financial intermediaries (FIs); equity/shareholding in companies, financial institutions, and other entities; structured finance products such as guarantees and securitizations; municipal finance; and E&S due diligence of Advisory Services (AS) projects. The ESRP Manual also describes the methodology to implement IFC's institutional disclosure requirements in accordance with the AIP.

IFC Asset Management Company, LLC (AMC) (a wholly-owned subsidiary of IFC), is IFC's fund management organization raising and managing third-party capital, which it invests in IFC transactions. All investments made by AMC-managed funds are executed and managed in accordance with all IFC operational policies and standards, including the Sustainability Framework. As AMC only invests in projects in which IFC directly invests, it relies on IFC's E&S due diligence.

2. ESRP Scope

2.1 ESRP Procedures Manual and the WB Environmental, Health and Safety (EHS) Guidelines: The general and sector-specific EHS Guidelines provide benchmark criteria in line with good international industry practice and are linked to the PS through PS2: Labor and Working Conditions, PS3: Resource

Efficiency and Pollution Prevention and PS4: Community Health, Safety and Security. The ESRP Manual does not repeat this technical guidance for specific E&S project performance, however, the ESRP Manual provides structured guidance for CESI Specialists to ensure consistency and quality of CESI review processes. (For further reference please read Guidance Notes for PS2, PS3 and PS4 in Rules and Tools / Sustainability Framework)

2.2 Project Documentation: CES' risk management system for investment review and supervision comprises decision recording systems (i.e., Environmental and Social Review Document (ESRD) and the corporate document repository for all investment projects, iDesk/IFCDocs). The ESRD facilitates creation of a record about key E&S decisions taken over the life of the project. iDesk/IFCDocs is the corporate repository of all pertinent project related documents reviewed. IFC applies specific monitoring and supervision requirements to investment projects including production and submission of annual monitoring reports (AMR), status reports on the Environmental and Social Action Plan (ESAP), periodic Site Supervision Visits (SSVs), and data required to update the corporate Development Outcomes Tracking System (DOTS). Category A and B investments are also scored at the end of appraisal and then during supervision using the Environmental and Social Risk Rating (ESRR), an internal CES tool designed to indicate the project's relative level of E&S risk. Corrective and preventative actions are ultimately captured and managed through the Environmental and Social Action Plan Tracker (ESAP Tracker). Category A and B projects are also rated at the end of appraisal and during supervision using the Performance Standards Achievement Rating (PSAR), introduced with ESRD 3.0 (see Rules and Tools – CES Apps) to track the progress made towards the implementation of applicable Performance Standards.

2.3 Roles and responsibilities: a more comprehensive description of roles and responsibilities in CES is included in the CES RMS manual (see Rules and Tools/ RMS Manual)

2.3.1 Client's Role: IFC expects clients to manage E&S risks and impacts of their projects. This entails client assessment of these risks and impacts, and implementation of management systems and management plans to meet the requirements of the PSs. An important component of the client's E&S performance is its engagement with the affected communities through the life of the project.

2.3.2 Role of the CESI Lead E&S (LESS) and Support E&S Specialist (SESS): The LESS and SESS identify and assess projects' E&S risk and impacts in order to help clients to define adequate E&S management plans and to promote sustainable outcomes. The ESRP Manual is not intended as a substitute for specialists' professional judgment and expertise. The ESRP Manual provides work instructions to guide consideration and documentation of key issues and decisions that are to be made during the investment cycle. Deviations from recommended practice in the ESRP Manual must be approved by Manager CESI and recorded and stored in iDesk/IFCDocs.

Specifically this role includes:

- Conduct due diligence of the proposed investment activity;
- Assist the client in developing measures to avoid, minimize, mitigate, and where residual impacts remain, compensate/offset for E&S impacts consistent with the PSs;
- Categorize the project to specify IFC's institutional requirements to disclose project-specific information to the public;
- Identify opportunities to improve E&S outcomes;
- Monitor and document the client's E&S performance throughout the life of IFC's investment; and
- Disclose information about its institutional and investment activities in accordance with the *Access to Information Policy* (see Rules and Tools – Sustainability Framework).

2.3.3 Role of Regional Team Leaders (RTL) and Sector Leads (SL): RTL and SL have an outstanding role on the quality and consistency of the project processing and on providing guidance on technical issues and operational performance. There is some desirable level of overlap between the two functions (as it provides robustness to our E&S products), but most often SL have a leading role during the appraisal of projects while RTL have the main role during the project supervision phase.

2.3.4 CES Managers: have the responsibility for the overall performance of their management units; on the management of personnel and resources; and on providing clearance on critical decisions about projects.

3. ESRP Manual content:

Individual procedures applicable to appraisal and supervision of Direct Investments activities are addressed in ESRP 2: E&S Team Assignment, Early Review, and Concept Review Meeting; ESRP 3: Appraisal; ESRP 4: Disclosure and Commitment; and, ESRP 6: Supervision (see Rules and Tools – Sustainability Framework). Individual procedures applicable to appraisal and supervision of FI investment activities are addressed in ESRP 7: Early Review and Appraisal; ESRP 8: IFC Disclosure and Commitment; and ESRP 9: Supervision (see Rules and Tools – Sustainability Framework).

For both Direct and FI investments, actions for addressing eventualities (e.g., something that might happen, contingent occurrences) during IFC's investment cycle are described in ESRP 5: Managing Non-routine events in Investment Projects. ESRP 10 E&S High Risk List describes special supervision treatment given to the group of projects in the active portfolio that entail the highest level of E&S risk. E&S responsibilities for appraisal and supervision of AS investments are defined in ESRP 11: E&S Requirements for Advisory Services Projects (see Rules and Tools – ESRP 11). ESRP 12 describes the steps for updating existing and generation of new environmental and social (E&S) Review Procedures in ESRP Manual.

4. Rules and Tools:

A cornerstone of CES quality assurance efforts is the control of operational documents. Document control is an essential preventive measure ensuring that only approved, current documentation is used throughout the organization. Inadvertent use of out-of-date documents can have significant negative consequences on consistency and traceability of E&S processes.

Rules and Tools is an information management application that contains current, management-approved procedures, documents, and guidance for CESI Specialists and links to other operational resources. *It is the definitive source of guidance, information, links, and document formats for CESI Specialists engaged in IFC appraisal and supervision work.* For each step in Mainstream and Financial Intermediary project cycles (e.g., Early Review, Appraisal, etc.), there is a compilation of *Rules*, including applicable procedures and E&S Sustainability Framework documents, and *Tools*, including document formats, worksheets, calculation and estimation tools, and diverse guidance.

On addition to the Sustainability Framework related documents, IFC has a library of technical resources on sustainability available in its webpage (IFC+Sustainability/publications) organized as Reports, Handbooks and Toolkits, Case Studies, Good Practice Notes and Lessons of experience that provide additional valuable references .

5. IFC Policies Compliance and Oversight Mechanisms:

The World Bank has several organizations to ensure compliance with its policies. These entities have access to appraisal and supervision documents and may evaluate them during the course of an investigation.

The oversight functions include the following.

- **Compliance Advisor/Ombudsman Office (CAO)** established by IFC and the Multilateral Investment and Guarantee Agency in 2000. The CAO audits compliance with IFC's Sustainability Framework. CAO also carries out an ombudsman role by attempting to mediate disputes among companies, governments, and civil society organizations. The CAO also provides advice to the President of the World Bank Group and to senior management of IFC and MIGA on broader environmental and social issues.
- **The Internal Audit Vice Presidency (IAD)** is responsible for evaluating the effectiveness of the organization's risk management and governance processes. It provides advice in the development of risk control solutions and monitors implementation of corrective actions to mitigate risk.
- **The Independent Evaluation Group for Private Sector (IEG)** is responsible for the post-evaluation function within IFC. IEG's work aims to:
 - Help provide accountability for achievement of IFC's objectives;
 - Identify lessons from past experience for improving IFC's operational performance; and
 - Help reinforce corporate objectives and values among staff.

ESRP 2. DIRECT INVESTMENTS: PRE-MANDATE INITIAL REVIEW, CONCEPT REVIEW MEETING, AND E&S SPECIALIST(S) ASSIGNMENT

1. Purpose and Applicability

This procedure applies to initial environmental and social (E&S) review activities for Direct Investments beginning with pre-mandate review through approval to proceed with appraisal as an outcome of the project Concept Review Meeting (CRM).

This procedure addresses: understanding the scope of the business activity(ies) in which IFC is proposing to invest; initial identification of potential key Performance Standards issues associated with the proposed investment based on the business sector and geographic extent of the activities; participation in the CRM; preparation of *E&S Considerations* text for the Project Data Sheet-Concept (PDS-Concept), and assignment of E&S Specialist(s) team. It also includes assignment of provisional E&S categorization and related investment Tier, and development of an appraisal strategy with any involved WBG entities or other DFIs.

2. Procedure

2.1 Initiation and Identification of Potential Risks and Impacts: Upon being notified by the regional or global investment department of a prospective new project, the CESI Regional Team Leader (RTL, often in the case of regional projects) and/or the relevant CESI Sector Lead (SL particularly for global projects), or their designee, shall request available information necessary to understand the extent of the business activity being considered for investment. Central to this understanding is information surrounding the intended use of IFC proceeds and whether the assets to be developed are physically defined and located or yet to be identified. It is also important to understand whether the proposed financing involves debt, equity, or both, and the nature of the existing assets at the investee company level in relation to the use of IFC proceeds. Equally important is an understanding of the level of management control the investee has over the business activity.

Once the use of proceeds, asset type/status, investment instrument and nature of asset control by the company are understood, the RTL and/or SL identifies the risks and impacts that might be associated with these types of activities. Risk and impact identification will depend primarily on what is known about the: (i) physical E&S footprint of the activity(ies); (ii) particular business sector, or range of sectors, addressed by the activity(ies); and (iii) in the absence of a physical footprint, risk context of the future environmental and social setting or location of the activity(ies) in conjunction with the industry sector (s). To help inform the provisional categorization decision (see 2.5 below), sectors and settings with potentially high inherent risks should be noted at this early stage.

On the basis of the above understanding of use of proceeds and potential risks and impacts of the activity(ies), the RTL and/or SL shall articulate the conceptual approach that will guide the eventual E&S scope of review should the project be approved for appraisal (see ESRP 3). Where some or all proceeds are directed at unidentified, future assets, the review will include the investigation of the capacity,

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maturity, and reliability of the company's E&S corporate management system to enable compliance with the Performance Standards (PS).

2.2 Repeat Investment: If the proposed investment projects involves an existing IFC Partner, no further E&S review is required provided that: (i) IFC previously conducted E&S due diligence of the existing investment consistent with all applicable PSs; (ii) the new investment will not result in any material change in E&S impacts associated with existing investment(s); (iii) the existing investment is not a "knowledge gap" project (see ESRP 6); and the Environmental and Social Action Plan (ESAP) of the existing investment does not require any corrective actions additions, cancellations or reschedules because of either poor performance or to satisfy repeat investment needs.

It's important however for those cases where the existing investment has a high ESRR and supervision activities shown poor E&S performance, that the LESS highlights these facts for consideration during the IRM.

2.3 Investment Programs: There are some IFC investment programs (e.g. CCFP, GTSF and Infracventures) consisting of pre-approved funds for subprojects in some broad defined sectors or products. Those subprojects (in this type of investment programs) are processed by IFC receiving their own project ID and are subject to IFC's appraisal and are assigned an individual E&S category. That's why it does not seem purposeful to assign an E&S category to the investment program as a whole since the subprojects are subject individually to IFC's E&S due diligence and they receive an applicable E&S category. Thus Investment Programs are therefore not subject to E&S categorization as long as their subprojects are processed as described here.

2.4 Infracventures: is an investment program to support early stage infrastructure projects development efforts; for example (i) consultants' expenses and fees, (ii) planning and feasibility studies, and/or (iii) early project development costs (permits, land acquisition; pilot studies, etc.). Individual subprojects funded through Infracventures are categorized as C because impacts are very limited due to the pre-development nature of these projects and thus do not require further appraisal activities. In practice, however, they often require significant support from E&S Specialists in terms of drafting Terms of Reference (TOR) for consultancy purposes or environmental and social assessments and providing guidance screening projects through key E&S criteria, and/or providing advice on aspects such as community engagement issues, land acquisition monitoring, etc.

2.5 Transactions that do not require due diligence: CESI Specialists are not typically engaged in the special investment instruments listed below. They are automatically categorized in iDesk as follows.

Investment Type	Business Activity and Investment Definition	Environment Category	Reporting requirement
Rights Issue	Stock offering by a company that provides each existing shareholder a right of first refusal to purchase, usually at a discount from market value, a portion of the stock offering equated with the shareholder's current percentage shareholding.	E&S Category of original investment	None

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Investment Type	Business Activity and Investment Definition	Environment Category	Reporting requirement
B Loan Increase	B-Loan Increase/new B-Loan after an A-Loan has been approved by the Board and does not involve a concurrent increase in exposure to IFC's own account.	E&S Category of original investment	As indicated in agreement(s) for original investment or any subsequent amendments.
Restructuring	Agreement to modify terms of one or more Investment Agreements with a client, broader in scope than a Rescheduling. Restructuring usually involves a change in the type of instrument, e.g., a full or partial conversion from Loan to Equity, and/or a partial write-off of IFC's investment.	C	None
Risk Management (Swaps)	Product designed to hedge the financial risk of IFC's client(s) using derivative products.	C	None
Reschedules	Agreement to change timing and/or amount of Repayments, and/or increase (but not decrease) the applicable interest rate. Rescheduling involves changes in the timing and/or the amount of the scheduled Loan payments, but does not involve any write-off of IFC's investment.	C	None
Pipeline Split	Pipeline Splits are to be used when the Project approval amount is expected to be split into multiple commitments (i.e., separate legal agreements) for multiple client companies/beneficiaries. Each client company must have a uniquely assigned Project ID to which the commitments will be booked by the Department of Financial Operations in the financial system of record.	E&S Category of original investment	As indicated in agreement(s) for original investment or any subsequent amendments.
Portfolio Split	Portfolio Splits are to be used when the committed amount for a Project is expected to be split into multiple disbursements for multiple client companies/beneficiaries. Each client company must have a uniquely assigned Project ID to which the committed amounts will be transferred and the disbursements subsequently processed by the Department of Financial Operations.	E&S Category of original investment	As indicated in agreement(s) for original investment or any subsequent amendments.

No further CESI action is necessary in these cases, but if so required automated categorization can be overridden and a revised category can be assign.

2.6 Provisional Categorization and Tiering: The RTL (regional projects) and/or Sector Lead (global projects), or their designee, shall determine the provisional categorization for the project. The categories are defined as follows;

- Category A:** Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- Category B:** Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
- Category C:** Business activities with minimal or no adverse environmental or social risks and/or impacts.

Where the use of proceeds of IFC financing and the associated E&S footprint of the business activity are known/largely known at the time of the decision to invest, such as in traditional project finance, the RTL or SL (or their designee) will determine the business activity's provisional E&S category based on its potential impacts.

Where the use of proceeds of IFC financing and/or the E&S footprint of the business activity cannot be well enough understood/defined, the RTL/SL will determine the E&S category based on risks inherent¹ to the particular sector, as well as on the likelihood of a development taking place and on what can be reasonably ascertained about the environmental and social characteristics of the business activity's likely geographical setting.

In making a categorization decision CESI shall take into consideration the guidance provided in *Interpretation Note on Categorization* (Rules and Tools: Early Review, Guidance & Sustainability Framework, and Interpretation Notes). It is therefore expected that investments in sectors that are of inherent high risk and are likely to be located in geographically sensitive areas will be categorized as A. Investments in sectors with high inherent risk but where investments are likely to take place in low risk context will be categorized as A or B depending on availability of specific information.

E&S categorization of a prospective corporate investment is informed by the magnitude of potential impacts posed by the assets whether existing, under development, or yet to be identified. Where the physical assets have yet to be identified, but the sponsor's business plans and investment strategy indicate strong likelihood that high risk projects – i.e., large hydro projects in ecologically sensitive areas, greenfield thermal power plants or industrial complexes, transport projects involving sizeable resettlement – will be developed or acquired, the project is categorized as A. For entities with planned business activities characterized by limited potential E&S risk the project is categorized as B.

¹ Inherent E&S risk is the E&S risk related to generic aspects of an industrial sector or commercial activity and if known the geographic setting excluding management or mitigation measures.

Where another IFI, such as IBRD, MIGA, ADB, AfDB, EBRD or IADB, is known to be involved in a proposed investment, or is preparing to become involved, the RTL or SL will endeavor to ensure consistency of provisional E&S categorization.

The RTL/SL shall also agree with the investment department as to the E&S Tiering classification (Tier I, II, or III) in accordance with Guidelines for Early Risk Assessment for Project Tiering (see Rules and Tools - Guidance).

2.7 Processing Category C projects: The LESS analyzes the project scope and its potential E&S risks and when those are minimal or none assigns a provisional category C subject to clearance with the SL. The LESS has to provide a rationale for assigning a Category C to a project in the SII. Cat C do not require in general any subsequent project disclosures, unless there is any major incident that IFC has to inform to the public by updating the SII. Given that Cat C project are not subject to regular supervision activities, AMR and ESRR calculations are not required. However the LESS should review regular operational information provided by the client to the Portfolio Unit (like current investment portfolio for example) to identify any potential change in the project risk profile. For further guidance on Category C projects please refer to the "Brief Note on Category C projects" in Rules and Tools under Mainstream/Early Review/Rules.

2.8 Concept Review Meeting (CRM), COC/ROC Meeting, and Pre-Appraisal: The RTL or SL (or their designee) participates in the CRM and provides input based upon the initial risk and impact identification. The CESI participant should be prepared to discuss the provisional categorization and E&S tier, the conceptual approach to the E&S scope of review should the project be approved for appraisal, and any potentially significant E&S issues. The CESI participant should also endeavor to understand the investment process timing to assist in appraisal planning, scheduling and resourcing (ESRP 3).

If a ROC/COC meeting is called, the CESI participant should brief the CES Manager/Director prior to the meeting, and attend the meeting.

If one of the outcomes agreed at the CRM is to gather further pre-appraisal E&S information before engaging in project appraisal, the scope and timing of the visit shall be agreed among the CESI participant, relevant RTL/SL/Manager, and the investment department. The RTL and the SL will designate the CESI specialist(s) responsible for conducting the pre-appraisal mission.

On completion of the pre-appraisal mission, the responsible CESI specialist(s) will create a report of the mission findings using the IFCDocs format entitled *Site Appraisal Visit (SAV) Findings* in IFCDocs and to the investment department. Refer to Good Practice BTO (Rules and Tools – Early Review, Document Formats).

2.9 Lead E&S Specialist (LESS): If the project is approved for appraisal, the RTL and SL will designate, in coordination with the responsible CESI Regional Manager, a LESS and, if necessary, a Support E&S Specialist (SESS) for the new project, and notify the investment department team of this decision. The LESS is responsible for inputting CES team information in iDesk and for creating an Environmental and

Social Review Document (ESRD) for the project and updating the document with information collected to date in IFCDocs. The LESS also provisionally assigns an E&S category in iDesk.

2.10 Input to PDS-Concept/Monthly Operations Report (MOR) and Mandate Letter: Using all the information available to this point the LESS shall draft the E&S Considerations language for the PDS- Concept/MOR. Refer to PDS-Concept and MOR Example E&S Language (Rules and Tools – Document Formats). In the event that project-specific E&S language is deemed necessary for the Mandate Letter, the LESS shall provide this (refer to Mandate Letter E&S Input; see Rules and Tools – Guidance).

2.11 Coordination with IBRD and MIGA. If IBRD and MIGA are involved in the project, please refer to the Environmental and Social Policy and Procedural Guidelines for Projects Financed Jointly by Bank, IFC and/or MIGA, June 2012 see Rules and Tools - Guidance.

3. Responsibilities

3.1 The CESI RTL and SL, as appropriate, are responsible for:

- Requesting information from investment department to understand extent of business activity being considered for investment, the debt and/or equity nature of the proposed financing, and the proposed use of proceeds;
- Identifying potential risks and impacts of the activity sufficient to contribute to the CRM decision to proceed with project appraisal and inform provisional categorization and tiering;
- Determining provisional Category and providing input for defining Project Tier;
- Attending the CRM or designating a delegate and circulating key outcomes to CESI staff;
- Determining the need for a pre-appraisal, and delegating its implementation;
- Assigning LESS and supporting staff in coordination with the relevant CESI Manager.

3.2 The LESS is responsible for:

- Creating the ESRD and uploading available project documentation to iDesk/IFCDocs;
- Defining the scope for a pre-appraisal mission, if necessary, and conducting the mission;
- Creating and filing Pre-Appraisal Mission (SAV Findings (Appraisal Mission BTO)) format in IFCDocs;
- Assigning a provisional E&S Category to the project in iDesk;
- Providing E&S Considerations wording for the PDS-Concept ensuring that the E&S risks are adequately addressed in the PDS-Concept;
- Providing relevant E&S language to the Mandate Letter, if necessary.

3.3 ACS staff is responsible for:

- Assisting the LESS with filing all project documents in accordance with CESI Record Keeping Protocol (Rules and Tools – Guidance);
- Assisting the LESS as needed with populating the iDesk Core Team E&S staff as assigned by the RTL;

- Updating Appraisal timeline in iDesk to reflect travel date, traveler name and completion of Site Appraisal Visit (SAV) format from IFCDocs prepared for pre-appraisal and/or appraisal missions.

4. Records and Documentation

- E&S Considerations wording recorded in the PDS-Concept;
- PDS-Concept E&S Considerations language stored in IFCDocs;
- Mandate letter E&S input filed in IFCDocs; and
- Site Appraisal Visit (SAV) report filed in IFCDocs where a Pre-Appraisal Site Visit has been conducted.

ESRP3.DIRECTINVESTMENTS:APPRAISAL

1. Purpose and Applicability

This procedure describes the environmental and social (E&S) appraisal process for Direct Investment projects up to project preparation for public disclosure. ESRP 4 describes post appraisal activities.

2. Procedure

2.1 Appraisal Planning: Based on the understanding of the proposed financing structure, the mix of known and unidentified assets involved, and which of these assets IFC's proceeds are intended to finance, the LESS, in consultation with the RTL and SL, as necessary, determines the scope of the E&S appraisal process to be undertaken.

For traditional project finance where the use of proceeds and associated E&S footprint is known and defined, the scope of review focuses on information surrounding the project components and the site, including any Associated Facilities.

In corporate finance when the use of proceeds from IFC's investment, and the associated environmental and social footprint are known and largely understood, the appraisal will proceed as it is done for traditional project finance and IFC's requirements regarding environmental and social risk management will apply to the business activities financed from funds provided by IFC.

However, in those cases like provision of working capital, equity or an investment in holding companies, IFC's review will take into account the full range of operations undertaken by the entity in which IFC plans to invest, including any significant operations undertaken by its subsidiaries and companies for which it has management control.

Depending on the mix of known and unidentified assets, the review involves the investigation of the capacity, maturity, and reliability of the client's E&S corporate management system to effectively manage E&S performance, including its ability to enable current and future project compliance with IFC's PSs. When possible the review also considers the E&S performance of a representative set of past and prospective identified projects as a measure of management system effectiveness.

The LESS has to do the planning of appraisal activities required to accomplish adequate data collection, analysis, and decision-making. Planning should consider the extent to which some combination of document review, meetings and interviews with key stakeholders, and site visits are required. Appraisal planning should also consider whether additional E&S review resources are needed beyond those provided by the LESS and supporting CESI specialists. In cases where other financial institutions are involved in the prospective investment and retain outside consultants to conduct their E&S reviews, IFC's E&S review may want to rely, in part, on the work of these experts to inform our appraisal.

If needed, the LESS plans and develops an agenda for the Site Appraisal Visit (SAV) in coordination with the investment team and client which has adequate time and scope to identify the key risks and impacts and client mitigation.

Appraisals involving participation of other multilateral investment organizations require significant planning and coordination of E&S review and disclosure. If the International Bank for Reconstruction and Development (IBRD) and/or Multilateral Investment and Guarantee Agency (MIGA) are involved, refer to Environmental and Social Policy and Procedural Guidelines for Projects Financed Jointly by Bank, IFC and/or MIGA (see Rules and Tools - Guidance) to coordinate the E&S review. Coordinate with other investors, as needed, and determine opportunities to share information and avoid inconsistency and where it makes sense, duplication.

2.2 Conducting the Appraisal: If feasible, the LESS with support and collaboration from the supporting E&S Specialist should request and review available information before conducting site visits and meetings with project stakeholders.

In the absence of existing Environmental Assessment (EA) outputs (including generic and strategic environmental impact assessments, environmental analyses, and environmental audits), the LESS may also assemble a format for collection of data needed for appraisal and submit such format to the client to gather project appraisal information. Formats may include an E&S questionnaire.

Where corporate finance of unidentified future projects is involved, the LESS should request and review information surrounding the client's corporate management system including the following:

- Policies and objectives for environmental and social performance.
- Procedures for identifying and assessing the environmental and social risks and impacts of each project to be developed, acquired, or operated;
- E&S Management programs and their mitigation measures ;
- Organizational structure with sufficient resources and capacity necessary to implement the E&S management programs;
- E&S performance monitoring reports and review by management ; and
- Processes for ongoing stakeholder engagement including engagement with communities affected by individual project developments and operations and on-going disclosure of information.

The LESS can make use of the Integrated Biodiversity Assessment Tool (see Rules and Tools – Calculation and Estimation Tools) and other available sources of information to identify potential biodiversity issues that merit consideration during appraisal,

2.2.1 Site Appraisal Visit: While there are cases when a site visit is not required for appraisal, for example for repeat investments in the same, well-known asset/project or projects with a very limited footprint, in most cases new projects require an appraisal mission and an appraisal mission report which is to be created and stored in IFCDocs using Site Appraisal Visit (SAV) template (available in IFCDocs). The SAV should include project description and the findings of different appraisal activities that the LESS considers relevant such as the following:

- On-site inspections of:
 - One or more project locations and/or operating facilities;
 - Associated facilities, and/or supply chain operations; and
 - Third-party operations and activities;
- Interviews with company and contractors' staff, representatives of affected communities, key stakeholders, and local authorities;

- Gathering and review of additional information that may be needed to complete E&S appraisal; Close-out meetings with client representatives at its headquarters to discuss key issues, preliminary findings and likely improvement tasks and items that will be included in the Environmental and Social Action Plan (ESAP) and gaps that will need to be closed prior to ESRS release, Board, commitment and/or disbursement;
- When possible a brief description of next steps and timing.

2.2.2 Multiple appraisal missions: In certain situations, due to the complexity and dispersion of assets, multiple appraisal missions may be required. In addition, IFC may not be able to complete the appraisal unless the client undertakes additional assessments or studies needed to assess any number of issues. In some cases, IFC may direct the client to engage an external expert to support, for example, specific EAs of certain significant impacts, such as threats to critical habitat, natural resources, or legally protected areas (PS6); indigenous peoples (PS7) or unusual cultural heritage issues (PS8); or to conduct an environmental or resettlement audit if facilities are existing. If supplemental assessment or external expert studies are required, the LESS shall assist the client with developing Terms of Reference and/or suggest potential external experts.

2.3 Identifying PS Gaps, Finalizing Categorization, Peer Review, Completing Appraisal and Investment Review Meetings: Based on the appraisal information, the LESS completes the analysis, with guidance as necessary from the SL and/or RTL, identifying:

- Applicable PSs and the reasons why certain PSs are applicable and why the other PSs are not applicable;
- Any performance gaps associated with each of the applicable PS;
- The key actions that will be necessary to mitigate the identified gaps;
- Confirming or modifying, as necessary, the provisional categorization.

The LESS, with guidance from the SL/RTL, should also verify whether, at this stage in the appraisal process, there is sufficient IFC understanding of how project E&S risks and impacts will be managed for IFC to proceed to Investment Review and institutional disclosure. The project is not ready for disclosure until there is enough information to understand the key risks and impacts and enough information for the LESS and other decision makers to feel comfortable that these key risks and impacts are manageable and/or acceptable. If the LESS determines that more information is needed from the client or relevant third parties before the above can be identified, the LESS should notify the investment team promptly as this decision may impact the project timeline. Either the LESS or the Transaction Leader (TRL) will notify the client.

2.3.1 Peer Review Meetings: The need for a Peer Review Meeting (PRM) should be discussed with the CESI Manager for the following types of projects:

- High-Risk Projects; refer to Key Terms and Acronyms (Rules and Tools - Guidance);
- Projects with actual or potentially significant, adverse E&S impacts that are diverse, irreversible, or unprecedented, and that can be only partially addressed through mitigation measures;
- Complex projects with E&S issues that are uncommon or have not been encountered before;

In addition, Manager CESI may stipulate the need for a PRM of any project.

Once the CESI Manager agrees that a PRM should be held, the LESS is responsible for producing background materials and presentation for review by the Chair and distribution to PRM participants according to the timeline noted in the *Peer Review Meeting Planning, Execution, and Documentation* (see Rules and Tools – Peer Review Guidance).

2.3.2ICP, BCS & FPIC: For projects where the client must institute an Informed Consultation and Participation process, then IFC will make an assessment of the scope and quality of client's engagement with affected communities (see Annex 1). For projects where the client must institute a Free, Prior and Informed Consent process then IFC will verify this process. In each of these cases, the LESS will plan these processes in consultation with the SL and CESI Manager. Ideally the assessment of Broad Community Support should take place before disclosure, however because of the complexity of such assessment it happens often after the disclosure date (see Annex 5.1 of this document; ESRP 4 Disclosure and Commitment; and the Guidance Note on "BCS Determination Pre-Board and Post-Board Supervision of ICP Process" in Rules & Tools/Mainstream/Board Review and Approval/Tools).

When applicable, the LESS will propose to SL and RTL to include the project in the High Risk List. If they agree the LESS will create the record as described in ESRP 10 E&S High Risk Projects Listing.

The LESS can assist the TRL in those cases where GHG emissions need to be calculated or estimated for corporate reporting purposes if so required.

The LESS should participate in the project IRM and be prepared to discuss the key issues of the project. Prior to the IRM, the LESS should provide explanatory E&S text and related deliverables for IRM documentation. Refer to *IRM E and S Considerations Category A and B Examples* (See Rules and Tools – Guidance).

2.4 Preparing the ESRS/ESAP and providing SII input: For category A and B projects, the LESS should prepare a draft ESRS summarizing IFC's E&S appraisal findings. No ESRS is required for category C projects. The ESRS should present a succinct summary of the review and assessment of the E&S impacts associated with the project and how they are or will be mitigated by the project. Refer to *ESRS Template with Guidelines* (see Rules and Tools – Document Formats) and *Formatting Guidelines for Disclosure Documents* (see Rules and Tools - Guidance).

Where appropriate, the LESS should also prepare a draft ESAP (See Rules and Tools, *CES Apps*; or Appraisal/Appraisal Guidance/Action Plan Guidance Note.). Note that only actions requiring completion after Board approval, commitment, or first disbursement should be included in the ESAP.

2.5 Actions requiring completion before Board approval, Commitment or First Disbursement: in many cases the appraisal identifies client actions that are needed to close some defined E&S gaps before investment milestones such as Board Approval, commitment or first disbursement. These actions are to be agreed with the investment team and the client in advance and documented elsewhere such as in a covenant in the loan agreement, in a side letter, in a share retention agreement, etc. (See Rules and Tools - Appraisal/Tools/Action Plan Guidance).

The LESS follows up and ensures that such actions are completed, documents this fact (in the Action Plan Tracker) and keeps the CESI Manager informed if an investment milestone is reached without gaps being closed.

To facilitate supervision of the client's progress in implementing the Action Plan, the approved ESAP should be created in the Action Plan Tracker (Refer to Rules and Tools, *Appraisal, Action Plan Guidance Note*).

The LESS should provide the draft ESRS and ESAP to the SL and the RTL for review and comment. For category A projects, the ESRS and ESAP should also be reviewed by the CESI Manager. Once the SL and CESI Manager, as appropriate, approve the draft ESRS/ESAP, the LESS shall discuss these documents with the investment team with particular focus on the proposed conditions of investment articulated in the ESAP. After review and discussion with the investment team, the ESRS/ESAP should be sent to the client for review and approval. The client disclosure letter should also confirm that the PSs and applicable general and sector-specific EHS Guidelines have been sent to the client and client E&S staff (see suggested letter format in Rules & Tools, Public Disclosure/Tools/Document Formats). The LESS in consultation with the SL as appropriate will analyze and decide which client documents will be disclosed in addition to the ESRS and the ESAP.

For all projects, the LESS should prepare the E&S text to be inserted into the Summary Investment Information (SII). In all cases, E&S text should indicate the categorization rationale and the key E&S issues which will need to be managed by the client. Refer to Sample SII Template with Guidelines (see Rules and Tools – Document Formats).

2.6 ESRD and ESRR (a) record: The LESS will complete the ESRD and calculate the ESRR(A) score based on collection and analysis of project due diligence information (see Rules and Tools - Calculation and Estimation Tools) and record it. The ESRR(A) score is a snapshot of the client's E&S performance at appraisal and prior to any improvements made as condition of IFC's investment.

3. Responsibilities:

3.1 The Manager CESI is responsible for:

- Approving the need for a PRM;
- Clearing ESRS and ESAP drafts for Cat. A projects

3.2 The CESI SL is responsible for :

- Reviewing the draft ESRS and ESAP prior to submission to the client;
- Ensuring that the ESRD is complete prior to approval of draft ESRS and ESAP
- Ensuring Reviewing Appraisal SAV Reports.

3.3 The CESI Regional Team Leader (RTL) is responsible for:

- Reviewing the draft ESRS and ESAP prior to submission to the client when requested;
- Providing regional context information for the appraisal when necessary.

3.4 The LESS is responsible for:

- Ensuring that the E&S appraisal is conducted in accordance with this procedure Planning the appraisal activities such that there is adequate time and scope to assess on-site key E&S issues;
- Preparing the SAV report, uploading this report to iDesk, and distributing the report to the project team and the SL;
- Discussing need for a PRM with CESI Manager and then organizing the meeting and preparing materials, where relevant;
- Follow up on the status of action items from the PRM until issues are closed;
- Drafting the ESRS and drafting the ESAP in the Action Plan Tracker;
- Completing the project ESRD record
- Calculating the ESRR(A) and ensuring that the Team ACS uploads the rating to IFCDocs;
- Assigning final E&S Category to the project;
- Assessing the information on Community Engagement. Determining the need for ICP and/or FPIC and verifying that the client meets this requirement;
- Providing the findings of the E&S review to the TRL for inclusion in the IRM documents.

3.5 Team Administrative Clients support (ACS) is responsible for:

- Uploading all E&S appraisal documents provided by the LESS into IFCDocs;
- Uploading the ESRR(A) score into the IFCDocs;
- Assisting the LESS with creating and distributing the SAV (Appraisal BTO) report in IFCDocs; and
- Assisting the LESS in coordinating PRM logistics and distributing PRM minutes and outcomes prepared by the LESS (see Rules and Tools - Guidance).

4. Records and Documentation

The following documents, where present, are to be filed:

- All available EA information and documents filed in IFCDocs;
- Minutes of the PRM, including actions taken to address recommendations;
- The ESAP in the Action Plan Tracker,
- The ESRR(A) score entered in the iDesk timeline and the scoresheet stored in IFCDocs;
- Terms of reference used for any client External Expert in IFCDocs;
- Site Appraisal Visit (SAV) (Appraisal mission BTO) report to be created and stored in and distributed from IFCDocs; and
- Completed ESRD.

5. Annexes

5.1 Levels of Stakeholder Engagement in IFC's Sustainability Framework

Level of Risk/Impact		Stakeholders	Client Responsibilities	IFC Responsibilities	
Increasing Levels of Risk / Impact	Significant	Indigenous Peoples under these circumstances: 1) Impact on Lands/Natural Resources; 2) Resettlement of IPs; 3) Impacts on critical cultural heritage, including commercial use of cultural heritage.	Free, Prior and Informed Consent (FPIC). <i>Good Faith Negotiation</i> whereby client documents mutually accepted process, and evidence of agreement.*	Verification	Ongoing Supervision of Community Engagement. Update of ESAP as per AIP
		Impacts on critical cultural heritage, including use for commercial purposes involving Non-IP Affected Communities.	ICP+Good Faith Negotiation (GFN): client undertakes process that builds on <i>ICP</i> (described below) but also employs good faith negotiations resulting in a documented outcome.*	BCS Determination	
		1) Adversely affected Indigenous Peoples. 2) Potentially significantly adversely affected communities.	Informed Consultation and Participation (ICP): ICP builds upon the steps in <i>Consultation</i> (described below) and is a more in-depth process leading to client incorporating views of Affected Communities into decision-making and documenting process.*	BCS Determination	
	Moderate	Adversely affected communities and stakeholders.	Consultation: Disclosure. Two way dialogue. Grievance Mechanism. Stakeholder Engagement Plan. Ongoing reporting to communities on relevant Client's Action Plans.*	Verification	
	All Investment Activities	General Public	External communication: Client implements and maintains procedure to receive, register, screen and address communications from the public, document responses, and adjust management program.	Verification	
(*) It is expected that client responsibilities regarding stakeholder engagement activities are additive at each stage from bottom to top.					

ESRP 4. DIRECT INVESTMENTS: DISCLOSURE AND COMMITMENT

1. Purpose and Applicability

This procedure describes the E&S requirements of public disclosure of proposed investment information in IFC's 2012 Access to Information Policy (AIP) up to the signing of the Investment Contract (Commitment). IFC disclosure of key E&S information is implemented by posting documentation on the public-access IFC's Disclosure website.

2. Procedure

2.1 CES Approval for Disclosure: All E&S disclosure documents prepared by IFC shall be reviewed and cleared as drafts by the Sector Lead before the drafts are discussed with the Sponsor. For Category B projects the LESS shall discuss and agree with the Sector Lead any material revisions suggested by the Sponsor before starting the disclosure workflow. For Category A projects, disclosure documents shall be agreed with the CESI Manager, following Sector Lead review and before discussion with the Sponsor and following Sponsor review, before starting disclosure workflow. Rationale for early disclosure shall be agreed by the LESS, Sector Lead and CESI Manager before disclosure.

2.2 Early Disclosure: For projects or investments with potential significant adverse environmental or social risks and/or impacts, disclosure of the ESIA should occur early in the environmental and social due diligence process where possible. For some of these projects IFC provides early access to the client's draft ESIA document(s), so as to enhance transparency of the proposed project (see Rules and Tools – Public Disclosure Tools, Early Disclosure Guidance) before IFC has completed, or in some cases even started the appraisal. Whenever possible early disclosure of Category A projects takes place 120 days before Board to allow all IFC's shareholders to vote.

2.3 ESRS, ESAP & SII Approval Letter: The LESS is responsible for preparation of the approval letter for disclosure of the ESRS, ESAP and the SII to be signed by the client (see Rules and Tools – Document Formats). Once agreement is reached on the ESRS and ESAP, the client will complete the ESRS, ESAP & SII Approval Letter and return the letter signed to IFC. Upon receipt of the Disclosure Release letter, the LESS shall ensure that this approval letter is stored in IFCDocs (Public Disclosure Folder). All Tasks (Items) in the ESAP uploaded in the Action Plan Tracker must be Submitted (approved) before they are published.

2.4 ESRS and ESAP Disclosure: The LESS shall start the IFCDocs workflow to publish the ESRS and ESAP. The LESS then claims the workflow and clears it to the SL for his/her clearance. For a Category A project or Category B with BCS requirements), after SL clearance, the workflow proceed to Manager CESI, for his/her clearance, and where BCS is documented to Director CES for clearance of the BCS memo. A Category B project ESRS / ESAP will be cleared directly by the SL to CRU. When all CES approvals are complete in the IFCDocs workflow, disclosure documents will be forwarded to Corporate Relations. Corporate Relations will then disclose the ESRS, the Action Plan and the SII (when the Transaction Leader (TRL) has approved it in the workflow) on IFC's Web site. Refer to Disclosure Portal (SII, ESRS, and ESAP) (see Rules and Tools - Guidance). The LESS will provide to Corporate Relations Unit (CRU) the links

and attachments to relevant client project Environmental Assessment (EA) information that are referenced in the ESRS for disclosure on IFC's website.

2.5 Disclosure Coordination IBRD and MIGA: disclosure coordination with International Bank for Reconstruction and Development (IBRD) and Multilateral Investment and Guarantee Agency (MIGA): If, IBRD and MIGA are involved in the project, ensure coordination of disclosure requirements. Refer to Environmental and Social Policy and Procedural Guidelines for Projects Financed Jointly by Bank; IFC and/or MIGA, January 2009 (see Rules and Tools - Guidance). If other multilateral investors are involved endeavor to coordinate the timing of the institutional disclosures.

2.6 Disclosure Duration and Public Interest: The SII, ESRS, ESAP, and supporting documents must be disclosed in the IFC website prior to IFC's Board of Directors/Management consideration of the investment as follows:

- Sixty (60) days for Category A projects; and
- Thirty (30) days for Category B and C projects.

2.7 Delayed Public Disclosure: In some limited circumstances where the minimum time period cannot be met (as described in AIP paragraph 14), the relevant investment department director may delay the public release of the entire SII, ESRS and ESAP ("Option 1") or of certain client identifying information within the disclosure documents ("Option 2"). Option 2 is sometimes described as "Anonymous Disclosure." In the case of Option 1, E&S document disclosure workflow proceeds as described at 2.5 above, except that the Project Lawyer will enter the workflow, and CRU will not disclose until receipt of notification from the project team. An Option 2 disclosure proceeds as at 2.5, involving the project lawyer, but with withheld information marked "Pending" in the disclosure documents. The Access to Information Policy requires notification and details of and reasons for the delayed disclosure to be made in the Board Paper.

For Category A projects where the public release of the SII and E&S documentation is to occur after IFC's Board approves the investment, draft copies of the client approved ESRS and ESAP will be provided to the Board on a confidential basis prior to the Board's consideration of the investment. The documents should be appropriately watermarked as "confidential - not to be distributed".

2.8 Public Interest and Comments during Disclosure: Environmental and social inquiries or comments raised during the IFC disclosure period should be addressed in accordance with Environmental and Social Review Procedures (ESRP) 5: Managing Non-Routine Events in Investment Projects (Rules and Tools - Rules).

2.9 Restarting Public Disclosure: Restarting the time period of public disclosure may be necessary under certain circumstances and the LESS is responsible for recognizing the need and for advising the TRL on restarting the public disclosure duration prior to Board. Where new relevant project information that could substantially change (i) the adverse risks or impacts described in the ESRS or (ii) the mitigation measures described in the ESAP is received after release of disclosure documents but before Board approval, the disclosure duration (30 or 60 days) must be restarted in accordance with the Section IIB of the AIP (see Rules and Tools – Sustainability Framework).

2.10 Supplemental appraisal activities: Even though the appraisal is in most cases completed by the disclosure date, in some projects aspects of the due diligence process may continue after that date. If the LESS is confident that there is enough information to understand the risks and enough information for the LESS and for other decision makers to feel comfortable that these risks are manageable and/or acceptable the disclosure can proceed while some supplemental appraisal activities continue during the disclosure period and before Board approval. Supplemental information (for example framework management plans, client's specific policy documents, monitoring plans, etc) may be reviewed by IFC during the disclosure period. Projects where IFC will conduct a process to determine if Broad Community Support exists may require engagement with local communities close to the Board date as BCS is a point in time that helps to inform decision making.

2.11 Addressing Transboundary Issues: The Board representatives (Executive Directors) of countries potentially affected by transboundary effects of proposed project must be notified so they are aware that the proposed project has the potential for causing adverse effects through air pollution or deprivation of water from, or pollution of international waterways (see E&S Sustainability Policy, ¶18 – Rules and Tools – Sustainability Framework). Where transboundary conditions are present or anticipated, the LESS shall inform the Manager CESI, and ensure notification prior to the Board decision to the members of IFC's Board of Directors representing countries that are potentially impacted by the transboundary E&S issue.

2.12 Determination of ICP, FPIC, and BCS: In cases where clients are required to engage in a process of Informed Consultation and Participation (ICP), IFC determines whether there is Broad Community Support (BCS) for the business activity by Affected Communities. Broad Community Support is a collection of expressions by Affected Communities, through individuals or their recognized representatives, in support of the proposed business activity. There may be BCS even if some individuals or groups object to the business activity. The LESS will verify that the client has implemented an ICP process. Where assets are known, and the project development timing permits, IFC will disclose a summary of how it made its BCS determination with the ESRS. Where a BCS summary is not available prior to Board approval, the ESRS will be updated with this summary when available. Note that IFC will not routinely update ESRSs to summarise BCS in transactions that are corporate in nature with multiple sub-projects (for additional guidance please check the Guidance Note on "BCS Determination Pre-Board and Post-Board Supervision of ICP Process" in Rules & Tools/Mainstream/Board Review and Approval/Tools). The Manager CESI should be consulted, and the Director CES should be provided with the outcome of the BCS review. Where BCS is confirmed, the Director CES must clear the outcome. The FPIC/BCS process is summarized in the document entitled Review of Evidence of FPIC and BCS (see Rules and Tools – Appraisal Guidance) and then a FPIC/BCS approval memorandum is prepared by the LESS, and approved in writing by CES Director. This memorandum will be uploaded in iDesk.

After Board approval of the business activity, IFC continues to monitor the client's ICP process as part of its portfolio supervision.

FPIC builds on and expands the process of ICP and will be established through good faith negotiation between the client and the Affected Communities of Indigenous Peoples. For additional guidance, refer to Rules and Tools/Appraisal for Mainstream Projects/ICP, BCS and FPIC Assessment and Approval Guidance, which also serves as accompanying guidance and support for E&S specialists.

2.13 Annual Monitoring Report (AMR) scope and content: The LESS is responsible for preparing and proposing reporting formats to the client to help IFC's understanding of project E&S performance, compliance with ESAP, compliance with the applicable PS and general and sector-specific EHS Guidelines during the supervision phase. The AMR includes specific mandatory sections, ESAP Status, and any additional information that may be needed to evaluate client's performance. Refer to AMR Generation Tools (see Rules and Tools).

The AMR scope and content and its required reporting frequency must be discussed and agreed with the client and with the Core Team Lawyer to ensure incorporation of requirements into the Investment Contract. Where feasible, IFC's reporting requirements should take advantage of any other reporting by the client.

To support this requirement, the LESS shall:

- Prepare AMR reporting formats to ensure early on that the client is fully informed of the of data collection requirements necessary to support thorough and timely reporting; including ESAP Status reporting formats using the Action Plan Tracker Reports function and then transmit them to the iDesk Core Team leader for incorporation into the Investment Contract (generic term referring to Investment, Subscription, Participation, and other Agreements);
- Ensure that the Investment Contract mandates IFC client preparation and transmittal of AMR and clearly defines the frequency; and
- Ensure that the Investment Contract stipulates that the AMR may be changed by the client or by IFC with mutual agreement because of changed project circumstances or to enhance the content, clarity of E&S sustainability information reported to IFC.

2.14 Development Outcome Tracking System (DOTS) Input: The LESS will provide the investment department with selected DOTS E&S indicators for entry in the DOTS system under the Monitorable Impact Section. See Development Outcome Tracking System (DOTS) and Development Effectiveness at IFC (Rules and Tools - Guidance). The LESS should also review any commentary in the Board Paper on E&S Risks and Impacts, Additionality and Developmental Outcome. Where the project team proposes or the project is required to report against mandatory Development Outcome indicators, then the LESS should calculate baseline and target values for these and advise the investment team.

2.15 E&S Section of Board Paper: The Board Paper is a document prepared by the investment department for IFC's Board of Directors. Board Papers relating to specific investment projects are not publically disclosed, because they contain confidential client information. The E&S section of the Board Paper should:

- Describe significant risks and impacts and mitigations as well as anticipated key development outcomes of the project. Refer to Board Paper Environmental and Social Input (Rules and Tools - Guidance);
- Include E&S additionality language where warranted. Refer to Guidance on Environmental, Health and Safety Additionality for Board Papers (see Rules and Tools - Guidance);
- Include the outcome of the status of BCS/FPIC verification for cases where BCS/FPIC is required and can be conducted at that time. Refer to Review of Evidence of FPIC and BCS (see Rules and Tools - Guidance); and

When BCS is required but the project is not defined enough to conduct the process pre-Board, the Board paper should describe this situation and discuss how future supervision will review the clients ICP process and the level of support that the project enjoys from the community. For corporate and equity projects, it is not intended that IFC will conduct BCS on all future activities but on those that were described in the Board paper as being key to IFC supporting the transaction.

The LESS will seek clearance of the E&S language for the Board Paper by the SL. The LESS provides support, as necessary, to the project team for project presentations and briefings to the Board.

2.16 E&S Input to Investment Contract and Core Team Lawyer Liaison: The LESS will continue the liaison with the iDesk Core Team Lawyer, review current iterations of the Investment Contract, and continue to provide E&S input for the drafting of legal agreements as needed. For those investments where non-standard E&S clauses are required the LESS will consult with the SL.

For investments in market instruments and publically traded equity investments, where limited IFC influence or access to information exists because IFC cannot be a preferential shareholder, the LESS should seek alternative means of monitoring the investment such as through Corporate Sustainability or Social Responsibility Reports, etc. to monitor if the Company's Environmental Management System is consistent with IFC's PSs.

3. Responsibilities

3.1 The LESS is responsible for:

- Preparing the ESRS, ESAP & SII Sponsor Approval Letter for Disclosure Documents), submitting the letter format to the client.
- Determining the E&S assessment documentation for public disclosure on IFC's website;
- Obtaining client approval for Early Disclosure of EAs;
- Obtaining SL approval of Category B ESRS and ESAP documents;
- Obtaining CESI Manager approval of Category A ESRS and ESAP documents
- Obtaining Manager CESI approval of draft Category A and Bs with BCS supplemental disclosure documents; if LESS and SL are the same person, the Manager CESI must clear the disclosure documents in iDesk;
- Preparing a BCS Memo for review by SL, clearance by Manager CESI, and subsequent sign-off by Director CES and Industry Director prior to Board;
- Include in the ESRS a summary of how IFC made its BCS determination, if available at the time of disclosure. Where BCS determination is made after disclosure or post-Board (as per paragraph 32 of the AIP), LESS is responsible for updating the ESRS once this information becomes available;
- Starting the iDESK workflow for disclosure of ESRS and ESAP.
- Inform CESI Manager of potential transboundary issues.
- Providing the E&S section language to the Board Paper;
- Providing support, as necessary, to the project team for pre- Board project presentations and briefings to the Board;
- Preparing AMR Formats including the ESAP Status Report Formats, DOTS indicators update and other indicators to be included in the investment agreement;
- Providing TRL with data needed (baseline and targets) for establishing E&S Development Impact indicators in DOTS.

- Documenting an alternative approach to supervision of investments in, for example, market instruments and publically traded equity investments, and where the transaction structure precludes IFC from obtaining any special reports such as an AMR.
- Maintaining liaison with the iDesk Core Team Lawyer, previewing current iterations of the Investment Contract and continuing to provide E&S input to the drafting of legal agreements;

3.2 The Sector Lead (SL) is responsible for:

- Clearance of Category B disclosure documents in iDesk;
- Reviewing any proposed alternative supervision requirements prior to submittal to the Manager CESI for approval;
- Clearance of Board Paper E&S section.

3.3 The Manager CESI is responsible for:

- Clearing category A project's disclosure documents in iDesk;
- Obtaining Director CES approval for Category A projects with ICP/BCS and/or FPIC requirement;

3.4 The Director CES is responsible for:

- Review sign-off of ICP/BCS and FPIC.

3.5 ACS staff is responsible for:

- Assisting the LESS to list documents collected and reviewed by project team and uploading these documents into IFCDocs;
- Ensuring that signed Sponsor Release Approval Letter Format for Disclosure Documents (ESRS, ESAP and SII) have been uploaded into the Public Disclosure Folder in IFCDocs;
- Uploading copies of Client Compliance and Performance Report Formats in IFCDocs and distributing these to the Portfolio Officer and the Core Team Lawyer;
- Assisting the LESS with the attachment of Category A disclosure documents (full-text, including graphs, tables, maps, etc.) to the ESRS Workflow.

4. Records and Documentation

- The ESRS and ESAP created in the Action Plan Tracker. The final version of both documents is stored in IFCDocs;
- Where required, the client's EA documents posted on IFC's website;
- Early Disclosure client approval letter and an IFC Disclosure Website cover sheet;
- Client letter approving the InfoShop publication of the ESRS and ESAP filed in the Public Disclosure folder of IFCDocs;
- Board Paper E&S input stored in iFCDocs;
- ICP/BCS matrix and signed approval letter.

ESRP 5. MANAGING NON-ROUTINE EVENTS IN INVESTMENT PROJECTS

1. Purpose and Applicability

Approved actions for addressing non-routine events during IFC's investment cycle for CESI Specialists are described in this procedure.

2. Procedure

2.1 Compliance Advisor Ombudsman Involvement: During any phase of a project, a complaint may be filed on alleged E&S issues with and accepted by the Office of the Compliance Advisor/Ombudsman (CAO). The CAO communicates such complaints to the Investment Director responsible for the project. When the Lead Environmental or Social Specialist (LESS) is made aware of such complaints he/she will inform the following IFC staff of the CAO complaint:

- The CES Communications Officer
- The CESI Sector Leads (SL) and Regional Team Leaders (RTLs);
- The Manager CESI; and
- The CES Director.

CESI interface is related to two CAO activities:

- CAO Ombudsman reviews complaints of stakeholders affected by IFC projects and works with stakeholders and IFC clients to help resolve grievances; and
- CAO Compliance conducts audits of performance of IFC to ensure compliance with policies, guidelines, procedures and systems.

The LESS shall provide support to the Investment Director and proxies in their efforts to develop a response and an interface plan with CAO. This will include the following steps:

- Cooperate with Investment Department protocol for communication amongst the client, investment staff, CESI staff, and the CAO;
- Provide background E&S information to Investment Department staff assigned responsibility for CAO interface and response;
- Support CESI Sector Lead (SL), and Manager CESI review and input to the Investment Department's response to the CAO. This response will be cleared by Director CES.
- Keep CES Director, CESI Manager and Regional Team Leader (RTL) abreast of the progress made by CAO engagement and on the client responses to the complainants.
- Add the project to or update the CES High Risk List project record, upload all related documents to IFCDocs, and update the Environmental and Social Risk Rating (ESRR) score if needed.

2.2 Notification of Serious Incidents: If the LESS is informed of any project related serious incidents including fatalities the LESS will immediately inform the following:

- The Investment Department Portfolio Officer;
- The CES Communications Officer

- CESI SL and RTL;
- The Manager CESI; and
- The CES Director

The LESS should obtain information on the incident and learn about the corrective actions taken or planned to mitigate the consequences and manage risks. If needed, the LESS will request the client to investigate root causes for the incident, and prepare conclusions resulting from the investigation. In some cases the Action Plan tracker will be updated to include the key actions to be implemented to prevent recurrence along with a timeline. If the LESS determines that a supplemental supervision mission is warranted they will discuss this with the SL and CESI Manager.

The LESS will record the incident in the ESRD, update the ESRR score if applicable, and record this new score and date in IFCDocs.

2.3 Media Coverage, Non-Governmental Organization, or other External Complaint or Inquiry: If there is a media, non-governmental organization, or other external entity interest or a complaint on E&S grounds (e.g., media reports, early protests regarding a potential IFC investment, allegations of substandard E&S performance) related to prospective, actual, or past IFC clients, the LESS shall not respond to any personal, e-mail, fax, telephone, or other inquiry. The LESS shall rely upon IFC resources assigned this responsibility and immediately inform the following staff members:

- The CES Communications Officer
- CESI SL and RTL;
- The Manager CESI; and
- The CES Director.

The project team Communications Officer and/or the CES Communications Officer and the Investment Department Communications Officer will take the lead for all subsequent communications and follow-on actions. The LESS will provide support to the lead Communications Officer. Upon request, IFC's Communications Staff would assist the client in communicating with the media, non-governmental organizations, or complainants.

The LESS will update the CES High Risk List records, revise the ESRR with new information if required, and upload available documents to IFCDocs.

2.4 Exceptional Circumstances: The AIP (para 12 & 13) describes IFC's prerogative to disclose information in the public interest in the event that information provided by the client or other sources indicates that the disclosure of non-public information would be likely to avert imminent and serious harm to public health or safety, and/or imminent and significant adverse impacts to the environment. In this case, the LESS shall immediately inform the following staff members:

- CESI SL and RTL;
- The Manager CESI;
- CESI Director; and
- The Investment Department TRL and Portfolio Officer.

The CESI Director and Investment Department Director will discuss the issue with the client, and with IFC Sr. Management if needed, and the LESS shall provide support in communications with the client which will likely include a description of the issue, its projected consequences, and IFC's recommended course of action. In the event that the client is unwilling or unable to address the matter, Sr. Management will decide the actions to take.

3. Responsibilities

3.1 The LESS is responsible for:

- Notifying the project TRL and/or Portfolio Officer; the CES Communications Officer; the CESI Sector Lead; the Regional Team Leader; the Manager CESI; and the CES Director regarding non-routine events as described in this procedure.
- Providing support to Investment Department staff to on responding to CAO enquiries;
- Timely update project records (ESRD and High Risk List), upload all related documents to IFCDocs, and update the ESRR score if needed.

3.2 The CESI SL is responsible for:

- Reviewing and commenting on draft communications and responses prepared by others if so requested.

3.3 The Manager CESI is responsible for:

- Providing CES approval for draft communications and responses prepared by others related to eventualities.

3.4 The Portfolio Officer is responsible for:

- Notifying project and department Communications Officers of eventualities; and

3.5 The Director CES is responsible for:

- Providing final approval of CES input to Investment Department responses to the CAO.

4. Records and Documentation

The LESS shall upload pertinent e-mail messages, documents, media publications, final CAO reports, and final Investment Department responses to CAO investigations and complaints to IFCDocs .

ESRP6.DIRECTINVESTMENTS:SUPERVISION

1. Purpose and Applicability

This procedure describes the environmental and social (E&S) review process during the supervision stage of the IFC project cycle for Direct Investment projects. E&S supervision obligations are applicable during the period from Commitment until the IFC investment project is closed.

The purpose of supervision is to obtain information to assess the status of project's compliance with the PS and other specific E&S requirements agreed at commitment; to assess the current level of E&S risk; to provide advice to clients on how to address critical E&S issues; and to identify opportunities for improvement and good practices that could be applied to similar projects.

2. Procedure

2.1 Supervision Responsibilities: Effective E&S supervision entails periodic review of the client's E&S compliance with the requirements of the IFC investment contract. Review activities include:

- Review Annual Monitoring Reports (AMRs);
- Undertake Supervision Site Visits (SSVs) – refer to section 2.6;
- Review all other project-related information that may become available including conducting periodic internet search's on the project; and define any changed project circumstances that were not anticipated in appraisal and that could or do result in adverse E&S risks and/or impacts;
- Establish client's degree of compliance with all investment conditions such as covenants, Conditions of Disbursement (CODs) prior to all disbursements, side letters, ESAP implementation, etc; Refer to *ESAP Status Report Example Format* (see Rules and Tools - Document Formats);
- Identify good E&S practices to promote their replication in other projects in the portfolio;
- Identify poorly performing projects and where the client fails to comply with its E&S commitments.
- Advise the client on how to manage E&S project issues.
- Clearly communicate risks and probable consequences of client compliance failures with the E&S requirements and initiate remedies if the client fails to reestablish compliance.

2.2 Conditions of Disbursement Review: Conditions of Disbursement (COD) may include specific investment contract E&S clauses and/or refer to an enclosed ESAP. After the legal agreements are executed and while disbursement(s) are pending, the LESS shall obtain compliance data from the project to assess fulfillment of E&S COD obligations. If all relevant E&S CODs and ESAP tasks have been completed, the LESS shall amend the ESAP Tracker record, upload the records to iDocs, and inform the TRL/Portfolio Officer of CESI clearance for the disbursement.

If there are incomplete E&S CODs and/or ESAP tasks at the time of disbursement, the LESS shall inform the TRL/Portfolio Officer. If the TRL/Portfolio Officer proposes to waive the COD, and if the LESS is supportive of the waiver, the LESS should document the justification for the waiver and send it to the CESI RTL and Manager CESI. Waivers of E&S CODs and ESAP task completion dates and/or approval of

replacement or modified CODs or ESAP task completion dates must be approved in writing by the Manager CESI and documented in IFCDocs and the ESAP Tracker. If the Manager CESI does not approve a proposed waiver or a replacement or modified COD, the LESS will inform the TRL/Portfolio Officer that CESI will not support disbursement until the COD is met.

2.3 AMR Review: The AMR, including a status report for ESAP tasks, is the client's primary communication channel for reporting E&S performance to IFC.

The Investment Department Portfolio Assistant is primarily responsible for logging AMR documents into iDesk. If clients send AMRs directly to the LESS, should send the AMR to the relevant Investment Department Portfolio Assistant for compliance tracking log-in. When the AMR is received in CESI, the CESI Team Administrative Client Support (ACS) is responsible for logging the document into the CESI section of the iDesk timeline, preparing the *AMR Review Cover Sheet* (see Rules and Tools - Document Formats) that provides instructions for the reviewing specialist, and sending the AMR to the reviewing specialist. AMRs sent directly from the client to the CESI Specialist, in HQ should be given to the CESI Team ACS and when in field offices to the ACS of the Portfolio Unit of the Investment Department.

Before reviewing the AMR, the CESI Specialist should read and understand IFC's project specific E&S requirements developed during appraisal including the ESAP. Review of the client's submittal should focus on material compliance with these requirements. E&S requirements are also captured in the *Negative and Affirmative Covenants and Reports* sections of Investment Contracts.

The review should carefully consider:

- The project's performance compared to the requirements of Safeguard Policies, IFC's PSs 2006 or 2012 PSs as applicable; applicable requirements of general and sector-specific EHS Guidelines, environmental assessment-proposed mitigation and management plans;
- The project's performance compared to the requirements of the ESAP;
- The implementation degree and effectiveness of the project's Environmental and Social Management System;
- Conclusions and completion status of remedial actions from previous AMR reviews; SSVs; and associated Supervision Environmental and Social Risk Rating (ESRR(S)) ;
- The effectiveness of the client's grievance mechanism and community engagement;
- When applicable the post-board implementation of ICP process (for further guidance see "BCS Determination Pre and Post Board of ICP Process" in Rules & Tools /Mainstream / Supervision/ Tools/ Project Supervision/ Supervision Guidance and Tools)Reported serious incidents in accordance with Environmental and Social Review Procedure (ESRP) 5: Managing Non-Routine Events in Investment Projects (see Rules and Tools - Rules); and
- All other project-specific E&S reporting requirements defined in the Investment Agreement, side letters or other places.

2.3.1 Report AMR Review Conclusions: Using the AMR Review document (see Rules and Tools - Document Formats) the LESS shall prepare a written record of the AMR review. The review shall:

- Consider carefully the resolution status of issues of noncompliance with PSs and general and sector-specific EHS Guidelines highlighted during the appraisal or previous supervision activities;
 - Provide an analysis and interpretation of the meaning of the information;

- Clearly communicate to the TRL and client the conclusions reached from information review, defining the gravity of E&S risk and impacts; and
- Communicate specific mandatory follow-up actions and reporting needs.

The LESS shall calculate an updated ESRR_(S) (see section on “Calculate ESRR”). When the ESRR_(S) is A/B-3, Partly Unsatisfactory, or A/B-4, Unsatisfactory, the AMR review distribution shall include the Investment Department Portfolio Manager and Manager CESI.

If a single AMR covers multiple IFC project numbers, the LESS shall record this fact in the AMR review. The LESS will also ensure all actions on the AMR Review Cover Sheet are completed, and sign and return to the CESI Team ACS along with the AMR review and ESRR_(S) scoresheet.

Updated CRR E&S language is recorded through creation and editing of example text in IFCDocs-created Recordable Supervision Activity (RSA) formats. These include *AMR Review*, *SSV Findings (former BTO)*, *CES Client Meeting & Information Review*, or *AMR Review and SSV Findings Combined*. The most current ESRR_(S) score and date are automatically uploaded to the CRR.

2.3.2 AMR Waiver: Waiver of IFC investment contract-mandated E&S Annual Monitoring Reports (AMR) submission is exclusively for extraordinary circumstances. For example, if construction is delayed and the proposed facility has not yet been built; if operations have ceased due to catastrophes such as earthquakes, explosions and the like; and/or other reasons for temporary halt of operations for which there are no operations or data to report. Waivers are granted for limited periods only (e.g. one year).

The document entitled *Petition for Waiver of E&S Annual Monitoring Report (AMR)* should be used to request Manager CESI approval of AMR Waivers (See Rules and Tools, Mainstream Supervision, Tools, Document formats).

2.4 Special reporting requirements: in those circumstances when specific aspects of the project rise significant E&S concerns IFC may request supplemental project information in addition to the AMR and on a quarterly or even monthly basis depending on the nature of the issue and its potential E&S consequences. These special reports will allow IFC to monitor more closely those specific aspects. In these cases additional supervision site visits may be required too.

2.5 Recordable Supervision Activity, Supervised Projects, and Supervision Site Visits Plan:

2.5.1 Recordable Supervision Activity (RSA): Is defined as any E&S specialist activity that results in an assessment of a portfolio project’s E&S performance (e.g. obtaining and reviewing an AMR; conducting a Supervision Site Visit; or participating in a client meeting, stakeholder meeting or conference call) and an updated ESRR score. Written records of RSA activities are to be saved in IFCDocs using the relevant supervision template.

2.5.2 Client Meeting/Teleconference/Supplemental project information: could be alternative supervision resources but they become RSA only if enough information is obtained to update the client ESRR score. In such cases this supervision activity shall be recorded using the template “Client Meeting/Information Review Summary” available in IFCDocs. If the information received

does not help to update the ESRR score, it can be saved as a stand-alone project document in IFCDocs if warranted.

2.5.3 Supervised Project: Is defined as a project for which the ESRR score, CRR language and DOTS E&S ratings and indicators have been updated as a result of a *Recordable Supervision Activity*. All active Category A and B investment projects should be supervised at least once a year.

2.5.4 Supervision Site Visits (SSV) Plan: CESI RTLs are responsible for proposing a list of projects to be supervised every year at the beginning of the fiscal year (FY) using *Portfolio Considerations* below. RTLs will finalize the list of targeted projects for the FY following discussion with the respective CESI Specialists, Industry Departments and CES Quality Assurance team and obtain Manager CESI approval for the final SSV Plan. The Plan will constitute the annual target of supervision site visits for that region and will be tracked on a regular basis.

Selection of projects for SSVs shall consider the following selection criteria.

FY Supervision Site Visits (SSV), Recordable Supervision Activity (RSA) Selection Criteria	
<u>Portfolio Consideration</u>	<u>SSV or Alternative RSA</u>
1. Knowledge Gap projects	<ul style="list-style-type: none"> • Mandatory SSV;
2. Projects with ESRR of 3 or 4	<ul style="list-style-type: none"> • Mandatory SSV; or • If E&S Physical Supervision Detractors* apply, conduct <u>alternative RSA</u> with RTL approval;
3. All other projects	<ul style="list-style-type: none"> • RSA; • SSV Plans shall ensure consideration of the following: <ul style="list-style-type: none"> <input type="checkbox"/> Category A and high risk projects <input type="checkbox"/> Projects with complex ESAPs <input type="checkbox"/> Projects under construction <input type="checkbox"/> Projects within the first year of disbursement
*E&S Physical Supervision Detractors	
<p>Justification for removal of projects from the draft SSV Plan may include the following:</p> <ul style="list-style-type: none"> • Adequate Supervision Information is available from other sources - e.g. independent E&S monitoring reports, assessment reports from other lenders, etc.; • Financial Restructuring underway; • Constrained Engagement Projects: projects for which prospects of a resolution of issues with IFC are very low; and, where IFC leverage is limited; • Excellent Sponsor E&S Capacity and Performance - RSA history confirms this; SSV would 	

- add no value (exclusively applicable to *Portfolio Consideration 3 All Other Projects*);
- Other compelling factors discussed and agreed between the LESS and the RTL.

Other factors may dictate SSV frequency, including major E&S incident(s), non-governmental organization (NGO) complaints, Compliance Advisor/Ombudsman Office investigations, an Expanded Project Supervision Report (XPSR), or an Independent Evaluation Group (IEG) visit. Refer to *ESRP 5: Managing Non-Routine Events in Investment Projects*. If an SSV is proposed because of a circumstance described in ESRP 5, the LESS shall ensure consensus for mission travel among the RTL, TRL or Portfolio Officer, and Manager CESI.

2.6 Preparation for Supervision Site Visits: The LESS shall prepare for and plan the SSV by reviewing previous RSA records, appraisal-generated documents, including BTO reports, the Environmental and Social Review Summary (ESRS), the ESRD and ESAP. Additionally, the LESS shall review the client's performance considering the requirements of the PSs, general and sector-specific EHS Guidelines, any environmental assessment mitigation and/or management plans and the criteria described for AMR reviews in Section 2.3 above. The LESS should ensure that the TRL or Portfolio Manager advises the client in advance of the proposed SSV, the purpose for the SSV, and recommended preparations. The SSV should include interview and discussion with the client and other representatives, document review, and physical inspection of selected facilities and/or activities.

Some IFC investments originally had a debt and an equity investment. Where the debt component is closed the E&S investment debt obligations are no longer applicable; however, if the company is not publically listed there may be E&S requirements tied to the equity investment. If the company is publically listed (refer to ESRP 4, 2.14) there may not be specific E&S requirements. In this case, the LESS should monitor the level of E&S risk posed for IFC. Ideally periodic reviews should be included in the Site Supervision Plan or other supervision formats whereby RSA should be used to evaluate project performance considering IFC's at-Commitment E&S requirements (if any) and the applicable PSs.

Circumstances permitting, after completing the SSV, the LESS or their designee should have a close out meeting with the client including presentation of findings, conclusions, and recommendations for corrective actions. If ESAP items need to be altered or new ones added, the LESS should try to secure agreement with the client at this time.

2.7 Documenting the Supervision Site Visit: The LESS shall document the SSV, along with key observations and interpretations, findings, and conclusions, through completion of an *SSV Findings (former BTO) or AMR Review and SSV Findings Combined* format document created in IFCDocs (Rules and Tools - Document Formats). Using the Sponsor Follow-up section of the relevant template, the LESS will highlight any material E&S compliance gaps for the client's attention. Once the document is completed, it must be filed in the Environmental Plans and Documents Folder of IFCDocs. CESI Specialists are responsible for distributing these reports, which contain the CRR E&S language, to the RTL and the Portfolio Officer along with the updated ESRR(S) (see Rules and Tools - Calculation and Estimation Tools). The LESS shall upload all other relevant E&S documents provided by the client to IFCDocs and will update the project's DOTS record. Refer to Development Effectiveness at IFC (see Rules and Tools - Guidance).

2.8 Independent supervision activities: When several lenders are financing large and/or complex projects they often agree on hiring E&S consultants to conduct independent supervision activities on their behalf. These consultants regularly visit the project in order to supervise the project's E&S performance and the progress on implementing the ESAP and they report back to the lenders. Thereafter, lenders follow up on any outstanding issues with the client as necessary. The LESS can rely on this source of supervision information to fulfill his responsibilities in terms of completing IFC's records and databases (e.g. ESRD, ESAP Tracker, ESRS(S), CES HRL, IFCDocs supervision records, etc).

2.9 Waiving Supervision Site Visits: It may not be feasible to conduct an SSV for projects selected in accordance with Portfolio Considerations in the FY Supervision Site Visits (SSV), Recordable Supervision Activity (RSA) Selection Criteria table above. In the case of projects listed in the Knowledge Gap, cancelling a planned supervision site visit requires the Manager CESI to be advised why supervision is not feasible using the Waiver of Environmental and Social Supervision and Removal from Knowledge Gap and Supervision Lists petition format (refer to Annex 7 and Rules and Tools - Document Formats). Supervision visits to projects that are not listed in the Knowledge Gap can be cancelled without a formal waiver but in order to reach the site supervision target they should be replaced with an alternative project supervision site visit.

2.9.1 Justifications for Waiving SSVs May Include:

- In the case of a dispute considered temporary and resolvable by the TRL/Portfolio Manager, the project supervision may be considered for postponement;
- In the case of a dispute considered permanent or irresolvable, an SSV may be postponed, suspended, or terminated; and
- Staff security and safety considerations.

2.9.2 Management Approval for SSV Waivers:

- The LESS will complete a *Waiver of Environmental and Social Supervision and Removal from Knowledge Gap and Supervision Lists petition format* (see Annex 7 and Rules and Tools - Document Formats) describing the reason for the proposed supervision waiver;
- Obtain signature approval from the Manager CESI;
- Upload signed waiver to iDocs;
- Transmit approved waiver to Quality Assurance and to TRL;
- Quality Assurance will remove the project from current Fiscal Year Supervision Plan.

2.10 Update Status of ESAP Tasks in the Action Plan Tracker: The 2012 AIP mandates update of the implementation status (e.g. % Complete, Completed, Rescheduled, Cancelled, etc.) of the publicly disclosed ESAP once the project is in IFC's portfolio for projects that were Board approved after January 1, 2012.

The Action Plan Tracker maintains detailed information about ESAP Items status. When the status of all Items (Tasks) in the ESAP has been updated and *Submitted*, the information may then be published to the IFC Disclosure Website. The LESS selects the *Supervision Disclosure* option. The system then provides an illustration of the information that will be transmitted to the IFC Disclosure Website.

2.11 Unfulfilled Action Plan: If the client fails to comply with its E&S commitments expressed in the ESAP or legal agreements with IFC, the LESS shall work with the client to bring it back into compliance to the extent feasible and, if the client continues to fail to achieve compliance, shall recommend

appropriate remedies for CESI Manager and Investment Department consideration. The project may be listed in the CES High Risk List because of the failure to implement the ESAP.

2.12 ESIA and Third Party Monitoring Post-Board Disclosure: except for those projects with minimal or no E&S risk and/or impacts, the LESS will update the content of project disclosed relevant E&S information as it becomes available through the life of the investment. In particular, disclosing the status of the implementation of the ESAP and any additional ESIA or third-party monitoring reports as applicable (in accordance with the Access to Information Policy Please refer to “ESIA and Third-Party Monitoring Post Board Disclosure” for guidance on the definition of ESIA and third party monitoring reports and which should be disclosed (filed in Rules & Tools/Mainstream/Supervision/ Tools/ Project Supervision/ Supervision Guidance and Tools).

IFC also encourages clients to make publicly available periodic reports on their environment and social sustainability performance.

2.13 Calculate ESRR_(S): The supervision process requires the calculation of a project’s ESRR(S), which IFC uses as a short-hand measure of project E&S risk. The LESS is responsible for calculation of the ESRR(S) using the ESRR calculation worksheet (Rules and Tools – Calculation and Estimation Tools) as a result of RSAs for projects, after reviewing AMRs, Supervision Site Visits, Client Meetings, stakeholder meetings or conference calls and other RSAs (see refer to 2.4 above).

On the basis of the information gathered, the LESS shall calculate the ESRR_(S): A/B1- Excellent; A/B2- Satisfactory; A/B3-Partly Unsatisfactory; or A/B4-Unsatisfactory. If the Supervision Activity does not provide sufficient information to impart confidence of the project’s compliance with at-commitment requirements, then the ESRR_(S) score should be at best A/B3-Partly Unsatisfactory.

The reviewing specialist shall consider if the qualitative review and associated conclusions are consistent with the resulting ESRR_(S) score generated using the ESRR spreadsheet. If the score is inconsistent with or contradicts the LESS judgment, he/she shall override the calculated score and record the underlying justification of the revised ESRR score.

IFC’s corporate systems assign ESRR_(S) scores at the partner (client) level and not at the project level so if there is more than one investment project in the system with the same client, then the system only accepts one ESRR_(S) Score. For original investment projects and repeat investments affecting the same facilities or operations, the most recent ESRR_(S) will be reported in the system for this partner (client). For investment projects with the same partner (client) affecting different facilities or operations there may be multiple separate ESRR_(S) scores for each of these projects. However, as the system will only accept one ESRR_(S) score, the ESRR_(S) score entered into the system at the partner (client) level shall reflect the highest risk rating (i.e. least satisfactory) recorded score among the partner’s (client’s) IFC projects. This approach is required to focus IFC and partner (client) attention on resolution of the project issues that led to the higher ESRR_(S) score.

On occasion, a Portfolio Officer will request an ESRR_(S) score to accompany CRR language, even though recent information on which to base the evaluation is not available. The LESS shall not update the ESRR_(S) score or date or CRR language in IFC Docs-created RSA formats without new information.

2.14 Update DOTS Indicators and DOTS Rating: Measuring development results helps IFC to report on our performance to stakeholders. Please refer to the Development Impact at IFC Website (see Rules and Tools – Mainstream Supervision – DOTS Guidance).

The DOTS system (Development Outcome Tracking System) uses standard indicators for E&S that are aggregated into results to capture development impact and to facilitate comparison of development effectiveness across regions and industries.

To update the status of each project the LESS may access the *DOTS View* tab in iDesk. Within the menu of DOTS E&S indicators there is a subset named as “CORE” E&S indicators. These indicators are the only ones the LESS is responsible for updating. Other indicators in the E&S menu (without the CORE name on it) are mostly related to CBG projects and are the responsibility of the Portfolio officer. A list of CORE E&S Indicators indicating which ones are mandatory by sector, and those that are subject to public disclosure and detailed definitions for each are located in Rules and Tools (Rules and Tools – Mainstream Supervision – DOTS Guidance). The CORE indicators are mandatory for some defined industry sectors and may not be eliminated without permission from the DEU Department.

The LESS is responsible for updating the DOTS E&S Indicators that were established at appraisal; and, updating the DOTS Rating (Environmental and Social Performance) for each portfolio investment project on an annual basis. DOTS updates are required as a part of Recordable Supervision Activities.

2.15 The Expanded Project Supervision Report: The Expanded Project Supervision Report (XPSR) is an annual exercise by the Internal Evaluation Group (IEG) affecting a random sample of IFC projects 5 years after Commitment. The XPSR considers IFC and project performance, anticipated and actual project outcomes, and a review of the quality of IFC appraisal and supervision work.

The LESS prepares for the XPSR by reviewing XPSR instructions and reporting template available on IEG’s Intranet site (refer to *Expanded Project Supervision Report (XPSR)* (see Rules and Tools - Guidance). The specialist should review available historical project records including IDocs and the *M/Environment Files/Mainstream Projects* drive and iDocs. Based upon this review, the LESS shall assess the project’s long-term E&S performance, including its E&S impacts and mitigation measures; compliance with PS, general and sector-specific EHS Guidelines, and ESAP requirements; client staff responsiveness; and the quality and frequency of the project’s E&S reporting.

The LESS will schedule a Supervision Site Visit if necessary to assemble complete, up-to-date project information. After the SSV the LESS will provide input to the project team as needed, recording all key findings, decisions, analysis, and conclusions in the *SSV Findings* format created and stored in iDesk (see Rules and Tools - Document Formats). The LESS is responsible for distributing the report from iDesk.

The LESS will record conclusions of the E&S project review in Project Environmental and Social (E&S) Review (See Rules and Tools – XPSR Guidance) and in the IEG XPSR report template (*Expanded Project Supervision Report*) (see Rules and Tools – XPSR Guidance); request review and approval from the CESI SL and/or RTL; and, when approved, send the completed XPSR report template to the Portfolio Officer. The LESS will upload the completed XPSR input to IFCDocs.

2.16 Addressing Reporting Gaps:

2.16.1 Late E&S Reporting: CES Quality Assurance (QA) will inform the LESS through the CES Monthly Performance Report about all active portfolio projects for which AMRs have not been received on time, and for which AMR reviews are overdue. RTLs will communicate the lists of overdue AMRs to appropriate Portfolio Managers, who will instruct the Portfolio Officers to obtain the overdue AMRs. RTLs will follow up with individual specialists with respect to AMR reviews that are more than 30 days overdue.

2.16.2 Knowledge Gap: A Knowledge Gap refers to Projects that were disbursed 15 or more months previously that do not yet have an ESRR_(S) score; and, projects with an ESRR_(S) score older than two years. This definition applies to projects with an existing balance of more than \$0, but not to Category C or Special Operations (CSO) Projects.

CES QA will inform CESI Specialists through the CES Monthly Performance Report of Knowledge Gap projects. RTLs, in discussion with SLs, Portfolio Officers and Portfolio Managers, will develop and implement measures to update E&S information, either by requesting an AMR, holding a client meeting or by conducting a SSV.

2.17 Portfolio Review: RTL shall note all projects where, following supervision, the ESRR_(S) is 3 or 4 - and, projects in the CES High Risk List and the current portfolio distribution among E&S categories. All this information will be reported quarterly to the Portfolio Managers. Quality Assurance provides the support to include this information in the Quarterly Regional Portfolio Review presentations.

2.18 High Risk List: Quarterly, the RTL is responsible for requesting regionally mapped CES Specialists to identify projects that have a high E&S risk and seek concurrence with the respective CESI SL. High E&S risk may be attributed to projects due to significantly adverse E&S impacts, reputational risks to IFC and/or Compliance Advisor Ombudsman (CAO) cases.

Refer to ESRP 10: Environmental and Social High-Risk Projects Listing (see Rules and Tools – Rules – 2012 Sustainability Framework) and to High Risk List (Rules and Tools – CES apps) for further guidance on the identification, listing and updating of HRL projects.

3. Responsibilities

3.1 The Portfolio Officer is responsible for:

- Obtaining an update from the client on the status of E&S CODs at first and subsequent disbursements;
- Requesting the AMR from the client;
- Communicating to the client any data deficiencies and/or Supplemental Actions identified by the LESS;
- Requesting and incorporating E&S wording into the CRR and XPSR;

3.2 The LESS is responsible for:

- Assessing and documenting project compliance with IFC's at-Commitment E&S requirements; Documenting project compliance with E&S CODs; Seeking approval from the Manager CESI to waive CODs;

- Managing the AMR review to determine E&S performance and amending documentation in iDesk;
- Create and save Recordable Supervision Activity documents in IFCDocs using the appropriate template, (i.e. either the AMR Review; SSV Findings; AMR and SSV Findings Combined or CES Client Meeting & Information Review)
- Update the project records in ESRD, the ESAP Tracker, the High Risk List and the DOTS system as appropriate.
- Updating the ESRR_(s) score based on findings from the AMR Review, SSVs, and other sources of data about client performance and compliance;
- Providing CRR and XPSR E&S wording to the Portfolio Officer;
- Notifying the Portfolio Officer of changed project circumstances.
- Preparing a *Waiver of Environmental and Social Supervision and Removal from Knowledge Gap and Supervision Lists* format for proposed elimination of projects from the SSV Plan;

3.3 The CESI Sector Lead is responsible for:

- Clearance of E&S XPSR conclusions;

3.4 The Regional Team Leader (RTL) is responsible for:

- Using input from CES Quality Assurance and CES Specialists to prepare a risk-based draft *Industry Annual Supervision Site Visits (SSV) Plan*;
- Using input from the CESI Sector Lead and Regional Portfolio Manager, finalize the Annual Supervision Site Visits Plan.
- Obtaining Manager CESI and Investment Department Portfolio Manager signature approval of the approved *Waiver of Environmental and Social Supervision and Removal from Knowledge Gap and Supervision Lists* format and transmission to the Quality Assurance team and stored in iDesk.
- Ensure delivery of the *Annual Supervision Site Visits (SSV) Plan*;
- Report and discuss projects with ESRR_(s) 3 and 4 scores with Regional Portfolio Managers;
- Review High Risk Project records and inputs;
- Follow up on CES Monthly Performance Report exceptions resolution.

3.5 The Manager CESI is responsible for:

- Clearing or rejecting proposed waivers of E&S CODs;
- Approving proposed *Waiver of Environmental and Social Supervision and Removal from Knowledge Gap and Supervision Lists* that are adequately justified in the memorandum.

3.6 CES Quality Assurance is responsible for:

- Removal of all projects from the draft *Annual Supervision Site Visits (SSV) Plan* for which approved *Waiver of Environmental and Social Supervision and Removal from Knowledge Gap and Supervision Lists* documents have been generated and stored in IFCDocs;
- Quarterly reporting to the CESI Sector Leads and Regional TLs of AMRs reports overdue to IFC; and
- Quarterly reporting to the CESI Sector Leads and Regional TLs of existing and prospective Knowledge Gap Projects.

3.7 The ACS staff is responsible for:

- Uploading AMRs into iDocs, producing the *AMR Cover Sheet* (see Rules and Tools - Document Formats), and distributing the AMR and cover sheet to the LESS;
- Updating the ESRR_(S) score and date in iDesk through the Company Reference Database after revision based upon AMR Review, SSV Findings (former BTO), and/or AMR and SSV Findings Combined report completion, or due to other Recordable Supervision Activity or circumstances leading to recalculation of the ESRR_(S);
- Ensuring that *AMR Review*, *SSV Findings (former BTO)*, and/or *AMR and SSV Findings Combined* distribution includes the Investment Department Portfolio Manager and Manager CESI when the ESRR(S) is A/B-3 or A/B-4;
- Assisting the LESS to ensure that the *Waiver of Environmental and Social Supervision and Removal from Knowledge Gap and Supervision Lists* format is saved in iDesk and transmitted to the Quality Assurance Analyst;
- Updating the AMR review field in iDesk;
- Updating the AMR follow-up field in iDesk;
- Distributing the AMR Review to the Portfolio Officer, Portfolio Assistant, and Regional TLs.

4. Records and Documentation

- AMR submitted by the client to be filed in iDocs.
- AMR review record to be filed in iDesk
- ESRR(S) update and input to CRD for all Recordable Supervision Activities (RSA);
- Updated Development Outcome Tracking System (DOTS) CORE Environmental and Social (E&S) Indicators established at appraisal; and the Development Outcome Rating (Environmental and Social Performance) for the investment project;
- Storage of *SSV Findings (former BTO)* or the *AMR Review and SSV Findings Combined* documents in IFCDocs and ESRD;
- XPSR E&S performance review wording to be filed in IFCDocs.
- Consultant *SSV Findings*, *CES Client Meeting and Information Review* or the *AMR Review and SSV Findings Combined* report, if applicable, and recommended corrective actions for the Industry and Regional TLs.

ESRP 7. FINANCIAL INTERMEDIARY INVESTMENTS: EARLY REVIEW AND APPRAISAL

1. Purpose and Applicability

1.1 This procedure specifies the environmental and social (E&S) review process for financial intermediary (FI) investments leading up to the Investment Review Meeting (IRM). ESRP 8 covers the remaining appraisal related steps from disclosure to commitment.

2. Procedure

2.1 Nomination of Responsible Sector Lead (SL) and Lead Environmental and Social Specialist (LESS): The CES SL is determined based on the Industry Department leading the transaction. The Regional Team Leader (RTL) and SL will determine the LESS. Where the FI investment involves multiple Industry Departments, the Financial Institutions Group (FIG) SL will discuss with the SL serving the other Industry Department the assignment of the LESS.

2.2 Initial Documentation Review: The LESS is responsible for reviewing available information about the project concept, the financing product type offered to the client, the expected portfolio to be supported, and, where available, the Financial Institution's Environmental and Social Management System (ESMS) and E&S risk management approach, and its labor practices in collaboration with the Transaction Leader (TRL).

2.3 Project Concept Review Meeting: The LESS will participate in the project's Concept Review Meeting, responding to E&S inquiries, and flagging key E&S issues associated with the project, product and type of financing, the need for a field appraisal, appropriateness of the assigned project E&S Tier, and in the case of existing clients key performance gaps. Upon request the LESS will provide the TRL with the E&S input for the PDS-Concept/MOR, identifying the provisional category of the project, key portfolio risks, the anticipated E&S requirements, scope of E&S due diligence (ESDD) and for existing clients the ESRR and outstanding E&S issues.

2.4 Need for Site Appraisal Mission: For projects expected to be FI-1 (high risk), as well as projects where the applicable performance requirements are expected to include IFC's Performance Standards (PSs), and where it is considered necessary to review further the client's E&S risk management practices or existing sub-projects, the LESS will discuss with the SL and communicate with the TRL on the need to carry out an appraisal visit to the FI. The TRL is responsible for arranging the site visit. Field appraisal might also be required in cases of new offerings where applicable performance requirements are to be established for the new product.

2.5 Provision of E&S Language for Mandate Letter and/or indicative Term Sheet: If requested, the LESS will review the E&S language included in the mandate letter and/or the indicative Term Sheet that lists the conditions of IFC participation. This should include:

- Scope of IFC's ESDD;
- Expected applicable performance requirements;

- The need for the FI to establish or upgrade an ESMS and capacity to implement the applicable performance requirements; and
- The requirement to comply with PS2 on labor and working conditions.

2.6 Participation in Corporate Operations Committee Meeting: If requested, the LESS will brief the Manager CESI and/or Director CES on key E&S issues of the project, participate in the Corporate Operations Committee (COC) meeting and other review or decision meetings, and respond to E&S inquiries. In cases where projects are referred to Regional Operations Committee (ROC), the Specialist will brief the Managers CESI (if requested).

2.7 Appraisal Assessment, Summary of Investment Information (SII) Preparation and Clearance: The LESS will obtain relevant information to analyze the level of E&S risk in the client's portfolio. This will include the client's top exposures, potential exposure to projects under the Compliance Advisor Ombudsman (CAO) investigation, and projects on CES' High Risk List (see ESRP 10). The LESS will also review the client's E&S risk management practices against the requirements of PS1 and any relevant country requirements; and assess the FI's labor and working conditions in line with PS2 and life, fire, and safety (LFS) measures.¹ Once the appraisal has been completed in the Environmental and Social Review Document (ESRD) FI,² the LESS will submit the appraisal assessment and proposed SII E&S language for clearance to the SL, and relevant Manager CESI where required.

2.8 Peer Review Meeting: The LESS will ask the Manager CESI to call for a Peer Review Meeting (PRM) in the case of:

- Projects with a complex E&S issue with structures that are uncommon or have not been encountered before; or
- Other projects as suggested by the LESS, SL, or Manager CESI.

Once the Manager CESI agrees that a PRM should be held, the LESS is responsible for determining the scope and purpose of peer review required and preparing background materials and a presentation for review by the Chair and distribution to PRM participants according to the *PRM, Planning, Execution and Documentation* and *PRM Minutes Template* (see Rules and Tools - Guidance and Document Formats).

2.9 Investment Review Meeting: The LESS will prepare a summary of the key appraisal findings for inclusion in the IRM book, provide this to the TRL, and participate in the IRM responding to any E&S related queries. The IRM contribution will be a summary of the portfolio assessment, including categorization of the project, key E&S risks and impacts, high risk exposures and E&S reputational risk deriving from the existing or expected portfolio; the client's E&S risk management practices, level of existing E&S capacity and training required; labor and working conditions and LFS practices; as well as the E&S requirements and the E&S Action Plan developed for the project, and the client's commitment to implement these. The LESS will also provide comments on the E&S requirements specified in the

¹ Refer to *Appraisal Questionnaire for Financial Institutions* in Rules and Tools. The RTL is responsible for requesting the required information from the client and providing it to the LESS.

² This will follow the *Appraisal Assessment and SII Preparation Guidance for Financial Institution Investments* (See Rules and Tools).

Term Sheet. Any deviations from standard E&S requirements and the residual risk deriving from these will be clearly flagged for review by the IRM.

3. Detailed Appraisal Guidance

3.1 Categorization: Once the appraisal is completed, the LESS will categorize the investment as FI-1 (high), FI-2 (medium) or FI-3 (low). The categorization will be commensurate with the E&S risk profile of the existing and/or proposed portfolio and will take into account the tenor, type, size and sector exposure of the portfolio, and be guided by the Tip Sheet Compendium³ and IFC's Policy on Environmental and Social Sustainability, as follows:

- Category FI-1: when an FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potentially significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
- Category FI-2: when an FI's existing or proposed portfolio comprises, or is expected to comprise of, business activities that have potentially limited adverse environmental and social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potentially significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
- Category FI-3: when an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

3.2 Applicable Requirements and Scope of Application:

3.2.1 Exclusion List, List of Restricted Activities and National E&S Laws and Regulations:⁴ All FIs will meet the requirements of the IFC Exclusion List and List of Restricted Activities (see Rules and Tools - Guidance). Where financing provided presents E&S risks, the FI must review the operations of the borrower/investee for compliance with the national E&S laws and regulations, where they exist and are applicable.

3.2.2 PSs Application: In addition, for FIs where the portfolio to be supported entails project finance and long-term corporate finance, the FI will be required to assess E&S risks against the PSs and require its borrowers/investees to comply with the PSs. Specifically, the FI will apply the PSs as follows:

- For project finance and corporate loans with tenor of not less than 36 months and funding-defined assets as part of a project amounting to at least \$10 million of total capital cost, compliance with all PSs is required;
- For other corporate loans provided to a single client exceeding \$5 million, on an aggregated basis over a period of 36 months, the FI should require the client's ESMS and labor practices to be

³ The Tip Sheet Compendium was previously known as Product Book.

⁴ This does not apply for financing provided for Retail Operations and Mortgage Finance.

consistent with PS1 and PS2, commensurate with the level of risk presented by the sub-client business activities; and

- In cases where the FI's leverage is limited (e.g., secondary market transactions or syndicated loans where the FI's participation is below 25% of the total loan value), the FI will be required to screen such transactions against key objectives of the PSs and make a go or no go decision based on the results of this screening.

3.2.3 Targeted End Use and Asset Class Approach:⁵ Where IFC funding is provided for a targeted, specific end use, the client will be required to apply the E&S requirements to cover only the specific end use. However, if the FI supports similar activities from its own account, the E&S requirements will apply to the entire asset class. Notwithstanding, as part of its ESDD CES will examine the E&S reputational risks of the client's entire portfolio, report the findings to the TRL, reflect them in the IRM and board paper E&S contribution, and document them in the ESRD FI.

3.2.4 Equity and General Purpose Funding: In cases where IFC's investment consists of equity or general purpose financial support with no traceable, specified end use, the E&S requirements will apply to the entire portfolio of the FI.

3.2.5 Exceptions: In cases where modifications to the E&S requirements outlined in sections 3.2 and 3.3 are requested by the client, the LESS will inform the SL. The SL will consult all material changes with the Director CES. The Director FIG will be informed and if needed consulted by the Director CES. The Directors CES and FIG will determine the approval process of these modifications by (i) either both Directors, or (ii) Corporate Risk Committee (CRC). Proposals for any waivers of the E&S requirements outlined in the Sustainability Policy will be appropriately addressed in Board Papers. They will be subject to the final approval by the Board. The LESS will inform the TRL about the process accordingly. The TRL will take the lead in cases of the CRC or Board approval requirements in preparing the relevant documentation with inputs from the LESS as needed.

3.3 Summary Guidance on E&S Requirements for Key Products:

IFC offers a wide range of products to its FI clients, and tailored E&S requirements have been developed for each. This section provides an overview of the E&S requirements of key products; for further details and other products not specified in this section refer to the Tip Sheet Compendium (See Rules and Tools). The Tip Sheet Compendium entails a description of all products offered by IFC to FIs and the respective E&S requirements. It comprises of four compendiums covering: (i) Short Term Finance programs, ii) Commercial Banks, iii) Non-Banking Financial Institutions, and iv) Investment Funds. These provide guidance to CESI Specialists on the key characteristics of each product, the typical E&S risks and resulting E&S requirements, the appraisal approach currently being followed, an indicative portfolio risk rating, and the likely categorization. The Tip Sheet Compendium is updated continuously to reflect new products and changes in products, requirements and approaches.

3.3.1 Retail Operations and Mortgage Finance: For FI investments where the FI is engaged only in Retail Operations (retail banking, consumer product leasing, consumer NPL acquisition) or Mortgage Finance

⁵ The asset class approach does not apply to Risk Sharing Facilities and all Short Term Trade Finance products offered by IFC.

(without construction) and has no plans to engage in any other business in the future, or IFC's financing to the FI is intended only for Retail Operations or Mortgage Finance, the LESS will categorize the project as a Category FI-3 investment with no E&S requirements.

3.3.2 Short-Term Trade Finance: For FI investments where IFC is supporting trade finance transaction through the Trade and Supply Chain Solutions Department, the LESS will classify the transaction as a Category FI-3 or FI-2 depending on the portfolio risk level in accordance with the Tip Sheet Compendium (see Rules and Tools). For projects supported under the Global Trade Finance Program (GTFP) IFC's Trade and Supply Chain Solutions department will need to apply the IFC Exclusion List and List of Restricted Activities for all activities supported under the transaction. For most other trade finance projects the LESS will require the FI to implement an ESMS to support the application of IFC's Exclusion List, List of Restricted Activities, and any other requirements and/or eligibility criteria (e.g., as per the country-commodity matrix) in accordance with the Tip Sheet Compendium.

3.3.3 Microfinance: If the FI is engaged in supporting only microfinance (including microfinance funds, microfinance holding companies and microinsurance companies), or IFC's financing is intended only to support the FI's lending or investments in this area, the LESS shall classify the project as Category FI-3, and require the FI to implement an ESMS to support the application of the IFC Exclusion List, List of Restricted Activities, and the relevant national laws and regulations.

3.3.4 Commercial Banks and Non-Banking Financial Institutions: For FI investments where the FI is engaged in providing products such as equity, loans, leasing, insurance, guarantee products or factoring, and in the case of financial holding companies, the LESS shall categorize the project based on the expected portfolio risk and in accordance with the Tip Sheet Compendium, and require the FI to implement a ESMS to support application of the IFC Exclusion List, List of Restricted Activities, applicable national E&S regulations, and the IFC PSs, where required, in accordance with paragraph 3.2.2.

3.3.5 Private Equity Funds: For investments in Private Equity Funds, the LESS will, in most cases, categorize the project as FI-1 or FI-2 based on the expected portfolio risk, and require the FI to implement an ESMS to support application of the IFC Exclusion List, List of Restricted Activities, applicable national E&S regulations, and the IFC PSs. In addition, the Fund Manager will be required to provide to IFC the ESDD and Corrective Action Plans developed for the first three investments and all high risk sub-projects for review and comments, prior to taking any proposed investment for approval by its Investment Committee, to ensure ESMS implementation is robust.

3.3.6 Non-Performing Loans (NPLs) and Distressed Assets: For FI investments involving the acquisition of Non-Performing Loans and/or distressed assets, the appraisal will confirm if such loans are purchased in pools and/or individually, if debtors have or are expected to have ceased operations/are bankrupt, or if the assets acquired will be reworked/operationally restructured by the Service Provider to determine the level of leverage by the FI. The LESS will require the FI to establish an ESMS for all investments involving NPLs or distressed assets. Where leverage is limited, the LESS will require the FI to implement an ESMS that ensures that the following are not supported: (i) excluded and restricted activities, (ii) debt with collateral that has E&S liabilities, and (iii) debtors with unsolved ongoing E&S compliance issues. The LESS will identify and flag the risks arising from the limited leverage, and inform relevant Manager CESI and Director CES, and record any unaddressed E&S risks that would remain on account of the

limited leverage in the investment decision documents for IFC management and Board information and decision. The LESS will record the decision and supporting analysis in the ESRD FI. In all other cases (extensive leverage), the FI will, in addition, be required to work with the debtor, using commercially reasonable efforts, to bring about compliance with the national laws and regulations and the PSs (as per paragraph 3.3.2) after acquisition of the loans.

3.3.7 Market Instruments with Limited or No Leverage: For investments where the FI is engaged in financing or investing in market instruments for activities with E&S risks, and where the FI has little or no leverage to carry out a reasonable review of the project's risk, the LESS will require the FI to implement an ESMS. The ESMS will support the application of the IFC Exclusion List, the List of Restricted Activities and include a reputation risk screen in addition to any other applicable performance requirements as can be reasonably implemented in the scope of the transaction. The LESS will inform relevant Manager CESI and Director CES, record any unaddressed E&S risks that would remain on account of the limited leverage in the investment decision documents for IFC management (COC/CRC) and Board information and decision. The LESS will record the decision and supporting analysis in the ESRD FI.

3.3.8 Other Types of FIs and Products: For all other types of FIs and/or products provided/proposed, the LESS will categorize the project and determine the applicable requirements in accordance with the Tip Sheet Compendium. For new products and offerings not yet included in the Tip Sheet Compendium, the LESS will consult with the SL, and where needed, the Manager CESI and Director CES, to determine the categorization and applicable requirements.

3.4 Preparation of Appraisal Assessment and SII:

3.4.1 Portfolio Data Review for E&S Risks: The LESS will request and review the portfolio information as provided in the *Appraisal Questionnaire for Financial Institutions* (see Rules and Tools) and any other information as needed, and determine the level of E&S risks of the financing supported under the project, categorize the project, and determine the applicable requirements in accordance with sections 3.1, 3.2 and 3.3 of this procedure. The portfolio review will include an assessment of the types of financing, tenor, transaction sizes, and industrial sectors of the portfolio to be supported; the FI's business plan and strategy; exposure to Excluded Activities and Restricted Activities; top and high risk exposures; potential exposure to projects under CAO investigation and on the CES High Risk List; activities of subsidiaries (if applicable); and identify any country-/sector-specific E&S risks and E&S reputational risks. The LESS will record the portfolio assessment in ESRD FI.

3.4.2 Review of the Client's Labor Practices against the PS2 requirements as well as LFS Measures:⁶ The LESS will request and obtain information about the client's labor practices as provided in the *Questionnaire on Labor and Working Conditions and Life, Fire and Safety for Financial Institutions* (See Rules and Tools). The assessment of the FI's labor practices will focus on the FI's HR policy and terms of employment, employee organizations, non-discrimination, and equal opportunity, as well as retrenchment and grievance mechanism; and the LFS review on regulatory compliance, operational LFS aspects and training, awareness, and competencies in this area. Where material gaps are identified, the

⁶ This does not apply to Private Equity Fund investments and GTFP projects.

LESS will include the required action into the E&S Action Plan. The LESS will record the assessment on PS2 and LFS, including gaps identified and any supporting analysis, in ESRD FI.

3.4.3 Evaluation of the Client's E&S Risk Management Practices including its ESMS as well as Staff Capacity and Commitment against the Requirements of PS1: The LESS will request information about the client's E&S risk management practices as provided in the *Appraisal Questionnaire for Financial Institutions* (see Rules and Tools), and review it considering its adequacy to implement the applicable performance requirements. The review will include the following aspects of the client's system and capacity commensurate with the nature of the activities supported:

- E&S policy and senior management approval thereof;
- ESDD procedures and tools to identify and avoid, and if avoidance is not possible, mitigate E&S risks and potential impacts;
- E&S provisions in legal documentation;
- Performance monitoring procedure and records, as relevant to E&S risk management;
- Reporting of E&S and ESMS performance to management and Board members (if applicable);
- External communication and grievance mechanism;
- Adequacy and quality of ESMS implementation to-date, including of ESDD documentation;
- The current organizational structure and staffing as relevant to E&S risks;
- Skills, capacity, and competencies of staff in E&S areas;
- Training and awareness of the client's investment, legal, and credit officers on the organization's E&S requirements and the ESMS; and
- Commitment of the client to undertake E&S risk management in line with IFC's E&S requirements.

3.4.4. Identification of E&S Risk Management and Staff Capacity Gaps: The LESS shall define any E&S actions that the client should undertake to address gaps to meet the requirements of the applicable performance requirements, and prepare an E&S Action Plan and determine timelines for its implementation taking into consideration the following criteria:

- Gaps in the ESMS procedures of FIs that are engaged in projects with either potentially significant E&S risks or risk exposure to IFC must be closed to ensure compliance with the applicable performance requirements before IFC Commitment or as a condition of IFC disbursement;
- Gaps in the ESMS procedures of FIs with either relatively low E&S risks or no immediate financing activities in risky areas must be closed according to a time-bound E&S Action Plan to be included in the legal agreements; and
- Significant gaps in the E&S performance (including outstanding E&S Action plan items) of existing clients must be closed through the process of commitment as conditions of commitment or as conditions of disbursement.

The LESS will record the decision and supporting analysis, including the E&S Action Plan, in the ESRD FI.

3.4.5 Defining the Supervision Requirements including Reporting: The LESS shall determine the reporting and supervision requirements, including:

- The Annual Environmental Performance Report (AEPR) including any requirements for reporting at the sub-project level (refer to the various AEPR formats for FI Investments in Rules and Tools) ensuring the DOTS requirements are met;
- If an ESMS implementation report during the first year after disbursement would be required to assess progress made in E&S Action Plan and ESMS implementation;
- The frequency of reporting;
- IFC's right to review the ESDD for the first few and high risk sub-projects prior to their investment; and
- Information to be provided in accordance with the Access to Information Policy.

3.4.6 Recording and Documenting of the Appraisal Assessment and Appraisal ESRR Calculation: The LESS will record the appraisal assessment and all material decisions and supporting analysis in the ESRD following the *Appraisal Assessment and SII Preparation Guidance for Financial Institution Investments* (See Rules and Tools), and complete the required entries in the ESRD in order to generate the Appraisal ESRR. The LESS will list all documents reviewed in ESRD FI and upload the same in IFCDocs.

3.4.7 SII Preparation and Clearance: Based on the appraisal assessment, the LESS will prepare the E&S wording for the SII including the "Environmental and Social Categorization Rationale," "Main Environmental and Social Risks and Impacts of the Project," and "Key Mitigation Measures" for FI-1 and FI-2 projects, and "Environmental and Social Categorization Rationale" for FI-3 projects. The LESS shall obtain, through the ESRD FI, the relevant clearance for the appraisal findings and SII E&S wording prior to its disclosure. For FI-2 and FI-3 projects, clearance should be obtained from the SL on the project; for category FI-1 projects, clearance should be obtained from the SL and Manager CESI on the project.

4. Responsibilities

4.1 The CESI is responsible for:

- Supporting the RTL in the assignment of the LESS in coordination with the Regional Lead FM Specialist;
- Approving the need for a field appraisal visit; and
- Reviewing the appraisal and clearing SII E&S wording prior to its disclosure on IFC Corporate Relations website, ensuring additional clearance of Manager CESI is obtained for FI-1 projects.

4.2 The LESS is responsible for:

- Obtaining, reviewing, and assessing the project information;
- Assigning the E&S Category to the project;
- Attending the Concept Review Meeting, the COC, IRM, other review or decision meetings where required, and briefing the Manager CESI prior to ROC meetings as needed;
- Consulting with the SL regarding the need for an appraisal visit;
- Determining the applicable performance requirements and E&S Action Plan;
- Recording all key decisions and supporting evidence for key decisions in the ESRD FI, obtaining clearances from SL and Manager CESI as appropriate;

- Listing all documents reviewed in ESRD and uploading the documents into IFCDocs;
- Requesting a PRM, when required; and
- Providing the requisite language for the PDS-Concept/MOR, the mandate letter, the Term Sheet and IRM book, and ensuring that the E&S risks are adequately presented and addressed.

4.3 The ACS is responsible for:

- Coordinating PRM logistics in accordance with PRM, Planning, Execution and Documentation (see Rules and Tools - Guidance) and the use of the PRM Minutes Template (see Rules and Tools - Document Formats).

4.4 The Manager CESI is responsible for:

- Approving the need for a PRM, as requested by the LESS, and ensuring that it is conducted according to provisions of this procedure; and
- Clearing the appraisal and SII E&S wording prior to its disclosure on IFC Corporate Relations website for Category FI-1 projects.

4.5 The RTL is responsible for:

- Determining the assignment of the LESS with support of the SL and in coordination with the Regional Lead FM Specialists.

5. Records and Documentation

5.1 The LESS or Support Environmental and Social Specialist will list in the ESRD FI and file in IFCDocs any relevant supporting appraisal documents.

5.2 In addition, the LESS will ensure that any communication or information not recorded in the ESRD FI system is filed in IFCDocs and referenced in the ESRD FI.

ESRP8.FINANCIALINTERMEDIARYINVESTMENTS:IFCDISCLOSUREAND COMMITMENT

1. Purpose and Applicability

1.1 This procedure describes the environmental and social (E&S) review process for financial intermediary (FI) investments, from the public disclosure of the proposed investment information in accordance with IFC's 2012 Access to Information Policy (AIP), up to the signing of the legal agreements and review of Conditions of Commitment (COCs).

2. Procedure

2.1 Summary of Investment Information (SII) Disclosure: Once the necessary clearance for SII E&S language is obtained in Environmental and Social Review Document (ESRD) FI, the Transaction Leader (TRL) will receive an email notifying him/her of the availability of the E&S language to be incorporated into the SII. When the TRL starts the SII workflow in IFCDocs, the SII will be automatically populated with the approved E&S language in its relevant sections, transmitted from ESRD FI. The TRL will then obtain the client's written acceptance based on factual accuracy and approval for public release to the IFC Disclosure website no later than 30 days prior to the IFC Board's consideration of the investment.

2.2 Delayed Public Disclosure: Delayed disclosure is outlined in paragraph 14 of the AIP. According to the AIP, IFC may delay disclosure of certain information that it would otherwise make publicly available because of market conditions; or legal or regulatory requirements. For specific instructions on delayed disclosure procedures please check the AIP Staff Guidebook (available in Rules and Tools; see chapter IV Exceptions; section B: Delayed disclosure).

2.3 Waiver to the disclosure duration: In some exceptional circumstances where the minimum time period cannot be met, waivers of the disclosure period for project ESRS must be cleared by the Lead Investment Department's VP (see IFC's operational procedure: Investment Operations – New Business paragraph 55). In these cases, the Board must be notified that the disclosure period was shortened including the rationale for such decision.

2.4 Public Interest and Comments during Disclosure: Where there are inquiries or complaints raised during the disclosure period, refer to the *Environmental and Social Review Procedure (ESRP) 5: Managing Eventualities in Investment Projects*. The Lead Environmental and Social Specialist (LESS) will provide support to the Investment Department as needed to manage the inquiry or complaint. The Investment Department is responsible for preparing the response to the request for information, but may seek detailed information from the TRL and LESS to resolve the issues associated with inquiries, complaints, or matters associated with IFC's AIP. Records of inquiries or complaints and responses should be logged into the ESRD FI.

2.5 Restarting Public Disclosure: Restarting the time period of public disclosure may be necessary under certain circumstances and the LESS is responsible for recognizing the need and for advising the TRL accordingly. Where new project information is obtained that is material to the E&S risks and/or impacts of the project, after the release of the SII but before the Board approval, the disclosure period must be restarted in accordance with the AIP.

2.6 Preparation of E&S Contribution for the Board Paper: The LESS shall prepare the E&S language for the Board Paper following the corporate guidance (see Rules and Tools). The Board Paper contribution will be a succinct summary of the portfolio assessment, including categorization of the project, key E&S risks and impacts, high risk exposures and E&S reputational risk deriving from the existing or expected portfolio, exposure to Excluded and Restricted Activities; the client's E&S risk management practices, level of existing E&S capacity and training required; and the key E&S requirements for the project as well as the client's commitment to implement these. Any deviations from standard E&S requirements and the residual risk deriving from these will be clearly flagged for decision by the Board. The LESS will also review and comment on the E&S-related aspects prepared by the TRL in the IFC additionality section, DOTS indicators, and Risk and Issue section of the Board Paper. The TRL is responsible for obtaining clearance of the Board Paper from the LESS prior to its submission to the Board. The LESS will provide support, as necessary, to the project team for presentations to the Board, and upon request provide technical briefings to members of IFC's Board of Directors.

2.7 Project Team Lawyer Liaison and E&S Input to Investment Contract: Upon request by the TRL, the LESS will liaise with the Project Team Lawyer and provide inputs for the drafting of legal agreements including the E&S Action Plan specifying the COCs and Conditions for Disbursement for the project and Annual Environmental Performance Reports format, and where the standard E&S covenants require modifications. Where material alteration of the standard covenants is requested by the client, the LESS will consult with the Sector Lead (SL).

2.8 Review of COCs: Prior to execution of the legal agreement, the TRL or the Portfolio Officer will be responsible for seeking LESS clearance that the E&S COCs have been satisfied. When such a clearance is sought, information will be obtained and reviewed as required to evidence the same in the ESRD FI, confirm if the COCs have been met, provide the clearance and upload the records to IFCDocs. The LESS will inform the TRL/Portfolio Officer if there are any E&S COCs that are not complied with, based on the above review. If the TRL/Portfolio Officer proposes to waive a COC, and if the LESS is supportive of the waiver, the LESS should document the justification of the waiver and send it to the SL and Manager CESI for approval. If the waiver is not approved, the LESS will inform the TRL/Portfolio Officer that CESI will not support the commitment until the COC is met. Waivers of E&S COCs must be documented in the ESRD FI and in IFCDocs.

3. Roles and Responsibilities

3.1 The LESS is responsible for the following:

- Providing the approved E&S language for the SII to the TRL;

- Providing inputs to the TRL for the Board documents;
- Providing E&S language for the investment agreements to the TRL;
- Supporting the TRL in responding to external inquiries; and
- Confirming if the project COCs have been met, informing the TRL or Portfolio Officer of any E&S COCs not complied with, obtaining SL and Manager CESI approval to waive COCs and documenting these in the ESRDI FI.

3.2 The CESI is responsible for:

- Providing advice when alteration of the standard E&S covenants is requested by the client; and
- Considering and approving the waiver of E&S COCs as deemed appropriate.

3.3 The Manager CESI is responsible for:

- Considering and approving the waiver of E&S COCs as deemed appropriate.

4. Records and Documentation

4.1 The following documents, where present, need to be filed in IFCDocs and recorded in the ESRD FI in support of the analysis provided:

- Language provided for the SII and Board Paper; and
- E&S inputs provided to the investment agreements.

ESRP9.FINANCIALINTERMEDIARYINVESTMENTS:SUPERVISION

1. Purpose and Applicability

1.1 This procedure describes the environmental and social (E&S) review process during the supervision stage of financial intermediary (FI) investments from commitment until the project is closed as an IFC investment. The purpose of supervision is to obtain information to assess the status of the client's compliance with the E&S requirements agreed upon; to assess the current level of E&S risk; to provide guidance to clients on how to address E&S risk management issues; and to identify opportunities for improvement and good practices that could be applied to similar projects.

2. Procedure

2.1 Supervision Activities: Effective E&S supervision entails periodic reviews of the client's E&S performance and compliance with IFC's E&S requirements, including through the following key supervision tasks:

- Assessing the client's level of compliance with the E&S requirements including all conditions of disbursement, Environmental and Social Action Plan (ESAP) items and other E&S covenants included in the legal agreement;
- Review of E&S due diligence (ESDD) for subprojects provided by the client;
- Review of the Annual Environmental Performance Reports (AEPRs); and
- Undertaking Supervision Site Visits (SSVs) including sub-project site visits and ESDD reviews.

The Lead Environmental and Social Specialist (LESS) will document and clearly communicate the risks and areas of non-compliance with the E&S requirements to the Portfolio Officer, and follow-up with the client as required to remedy and manage these.

2.2 Assignment of LESS for Supervision: Once an FI project moves to portfolio, the Regional Team Leader(s) (RTL(s)) will discuss with the Sector Lead (SL) and agree on the assignment of the LESS to supervise the project going forward.

2.3 Review of Conditions of Disbursement: Prior to disbursement the Transaction Leader (TRL) or the Portfolio Officer will be responsible for seeking LESS clearance that the E&S Conditions of Disbursement (CODs) have been satisfied. When such a clearance is sought, information will be obtained and reviewed as required to evidence the same in the ESRD FI, confirm if the CODs have been met, provide the clearance, and upload the records to IFCDocs. The LESS will inform the TRL/Portfolio Officer if there are any E&S CODs that are not complied with, based on the above review. If the TRL/Portfolio Officer proposes to waive a COD, and if the LESS is supportive of the waiver, the LESS should document the justification of the waiver and send it to the SL and Manager CESI for approval. If the waiver is not approved, the LESS will inform the TRL/Portfolio Officer that CESI will not support the disbursement until the COD is met. Waiver of E&S CODs must be documented in the ESRD FI and in IFCDocs.

2.4 Review of Subproject ESDD: For projects that require IFC review of the first three ESDDs and that of all high risk sub-projects, the LESS reviews the ESDD received from the client for such projects according to the pre-agreed timeframe as defined in the investment agreements, and provides comments and recommendations to the client. The LESS should consult with other specialists including a specialist with sector-specific expertise relevant to the sub-project proposed, as needed.

2.5 AEPR Processing and Review: The Portfolio Officer is responsible for ensuring that the client's obligations including AEPR reporting are fulfilled. He/she will request AEPRs and follow up on any questions about the adequacy of information provided with the client.

When an AEPR is submitted by the client, the LESS will ensure that the information provided is adequate. If not, the LESS will ask the Portfolio Officer to obtain additional information from the client and ask the Regional Portfolio Assistant to leave "date received by IFC" blank in the Compliance Tracking System until IFC receives the AEPR in the appropriate format/content.

The Investment Department Portfolio Assistant is primarily responsible for logging AEPR documents into iDesk. If clients send AEPRs directly to the LESS, the LESS will forward the AEPR to the relevant Investment Department Portfolio Assistant for compliance tracking log-in. When the AEPR is received in CESI, the CES ACS is responsible for logging the document into the CESI section of the iDesk timeline, preparing the AEPR Cover Sheet (see Rules and Tools – Document Formats) that provides instructions for the reviewing Specialist, and sending the AEPR to the reviewing Specialist.

The LESS will review the AEPR, focusing on the client's performance against the applicable E&S requirements as determined during project appraisal, the portfolio risk, and sub-project compliance with the applicable performance requirements, including:

- The status of the client's implementation of the ESAP and timeline if relevant;
- The status of development of the client's Environmental and Social Management System (ESMS);
- The quality of the implementation of the client's ESMS, particularly the quality of ESDD at appraisal and during portfolio monitoring, and the compliance of sub-projects with the applicable requirements;
- The client's E&S staff capacity and training needs;
- The portfolio supported and any changes thereof;
- The quality and timeliness of AEPR reporting;
- Key performance or information gaps relating to the client's E&S performance;
- Status of remedial actions identified in previous AEPR reviews and supervision visits; and
- Key steps the client may need to take to improve performance.

The LESS will ascertain whether or not:

- The nature of the client's business has changed significantly to indicate different applicable performance requirements from IFC;
- There is sufficient evidence that the client is operating the ESMS as envisaged at the time of appraisal; and

- There is sufficient evidence that the client has applied the applicable performance requirements to its sub-projects.

The LESS will complete the AEPR review (following the *AEPR Review Guidance Note* in Rules and Tools), record all key findings, decisions, and supporting analysis in the ESRD FI, generate the E&S Risk Rating (ESRR) in the ESRD FI, and provide the Portfolio Officer with the AEPR reviews findings including the E&S language for the Credit Risk Rating (CRR) report and ESRR score, and file them in IFCDocs.

If there are gaps in the client's performance or other issues of concern, the Portfolio Officer shall be alerted for timely follow-up by the Portfolio Department. If the AEPR report was submitted late, the LESS will ask the Portfolio Officer to communicate the need for timely reporting to the client. In coordination with the Portfolio Officer, the LESS should provide timely and clear explanations to the client on the actions needed to address performance gaps or other issues of concern.

Once the AEPR review is completed, the LESS is responsible for assigning the Development Outcome Tracking System (DOTS) E&S rating and requesting the ACS to update it accordingly in the iDesk DOTS tab.

2.6 AEPR Waivers: Waiver of IFC investment contract-mandated AEPR submission is exclusively for extraordinary circumstances. For example, the FI has not yet started its operations or has not yet made any investments or a Private Equity Fund has exited all its investments and no further monitoring is required. Waivers are granted for limited periods only (e.g., one year). The document entitled *Petition for Waiver of Annual Environmental Performance Report* should be used to request CESI Manager approval for AEPR waivers (see Rules and Tools). The LESS shall record any waivers in the ESRD FI.

2.7 SSV Plan: CES RTLs are responsible for proposing a list of projects to be supervised every year at the beginning of the fiscal year (FY) based on the selection criteria below (see Table 1). Supervision priority should be given to FI clients with high risk, poor ESRRs, clients in the knowledge gap, or clients in the early stages of ESMS development and implementation. RTLs will finalize the list of targeted projects for the FY following discussion with the respective LESS, SL, FIG, and CES Quality Assurance team and obtain the approval of the CESI Manager for the final SSV Plan. The Plan will constitute the annual target of SSVs for that region and will be tracked on a regular basis.

Other factors may dictate SSV frequency, including major E&S incident(s), non-governmental organization complaints, Compliance Advisor Ombudsman (CAO) investigations, an Expanded Project Supervision Report (XPSR), or an Independent Evaluation Group (IEG) visit. Refer to *ESRP 5: Managing Non-Routine Events in Investment Projects*. If a SSV is proposed because of a circumstance described in ESRP 5, the LESS shall ensure consensus for mission travel among the RTL, TRL, or Portfolio Officer, and Manager CESI.

2.8 Preparation for SSV: The LESS shall prepare for and plan the SSV by reviewing all appraisal and supervision records and documents. Additionally, the LESS shall review the client's performance considering its applicable requirements, the requirements included in the ESAP and their respective timelines. The LESS should ensure that the Portfolio Officer or Portfolio Manager advises the client in

Table 1. Criteria for the Selection of Projects for SSVs

FY SUPERVISION SITE VISITS (SSV), RECORDABLE SUPERVISION ACTIVITY (RSA) SELECTION CRITERIA	
<u>Portfolio Consideration</u>	<u>SSV or Alternative RSA</u>
1. Category FI-1 (high risk) projects	<ul style="list-style-type: none"> Mandatory SSV on annual basis
2. Category FI-2 (medium risk) projects	<ul style="list-style-type: none"> Mandatory SSV for all FI-2 projects with the PSs as applicable requirement on annual basis; Mandatory SSV at least every 3 years for all other FI-2 projects;
3. Knowledge Gap projects	<ul style="list-style-type: none"> Mandatory SSV;
4. Projects with ESRR of 3 or 4	<ul style="list-style-type: none"> Mandatory SSV; or If E&S Physical Supervision Detractors* apply, conduct <u>alternative</u> RSA with RTL approval;
5. All other projects	<ul style="list-style-type: none"> SSV for projects within the first year of disbursement, or Otherwise RSA;
*E&S Physical Supervision Detractors	
Justification for removal of projects from the draft SSV Plan may include the following:	
<ul style="list-style-type: none"> Financial Restructuring underway; Constrained Engagement Projects: projects for which prospects of a resolution of issues with IFC are very low; and, where IFC leverage is limited; The client was supervised in the previous FY and is on-track with addressing the outstanding performance gaps; Other compelling factors discussed and agreed between the LESS and the RTL; and Security concerns in country of client's operations. 	

advance of the proposed SSV, the purpose for the SSV, and recommended preparations. The SSV should include interview(s) and discussion(s) with the client and its representatives, review of ESDD documentation and sub-project site visits were applicable (see *Guidance Note on FI Supervision Approach* in Rules and Tools – Guidance).

2.9 ESDD Reviews and Sub-Project Site Visits: For supervision of Private Equity Funds the LESS will select 1–3 sub-projects to visit to assess the Fund Manager's implementation of the ESMS and compliance of the sub-projects with the applicable requirements. The selection of sub-projects should be focused on high risk sub-projects, projects for which the ESDD prepared or monitoring by the Fund Manager appears inadequate, projects with inadequate Corrective Action Plan implementation, where accidents or incidents have occurred, and any sub-projects deemed relevant to assess performance. For all other FI investments, the supervision will include a review of ESDD prepared by the client. The LESS will identify a sample of loan files to be reviewed in accordance with the Selection Criteria outlined below, and inform the client accordingly prior to the SSV. Site visits to sub-projects can be added if required. The selection of sub-projects to be visited should focus on high risk transactions.

Table 2. Selection Criteria for ESDD Reviews of non-PE Fund Investments

CRITERIA/TYPE OF IFC INVESTMENT	NO SPECIFIED END USE (E.G., EQUITY, QUASI-EQUITY, GENERAL PURPOSE LOANS)	TRACEABLE AND TARGETED END USE (E.G., CREDIT LINE)
Sample Size	At least 10 ESDDs prepared, following the criteria below:	In cases where the number of loans financed from IFC's funds is below 10, ESDD for all loans should be reviewed. If the portfolio supported entails more than 10 clients then at least 10 ESDDs prepared, following the criteria below:
Type of Product	Key types of products provided by the FI (e.g. project/corporate finance (70%), SME (15%), MFI/trade finance (15%)) of the sample	NA
Top Exposures	At least top 3 exposures of the FI	At least top 3 exposures of the IFC funded loans/asset class
Sectors of Lending	At least an example of each from the bank's top 5 sectors of lending	At least an example of each from the top 5 sectors of lending financed from IFC funds/asset class
E&S Risk Level of Portfolio	At least 80% of the project/corporate finance and SME loan ESDD reviews should focus on high/medium risk E&S risk sectors	At least 80% of the ESDDs should be for high/medium risk E&S sectors
Reputational Issues	ESDD from sectors to have known E&S issues in the specific country (palm oil Indonesia, cacao in CI)	ESDD from sectors (amongst the IFC funded loans/asset class) to have known E&S issues in the specific country (palm oil Indonesia, cacao in CI)
Appraisal versus Supervision	A mix of ESDD that has been relatively recently prepared as well as some older ones including monitoring reports for these (to review if adequate monitoring is also)	A mix of ESDD that has been relatively recently prepared as well as some older ones amongst the IFC funded loans/asset class (to review if adequate monitoring is also undertaken)
ESDD Gaps	All clients of the FI for which prior E&S related information provided to IFC indicated gaps in the FI's due diligence, e.g., mis-categorization, inadequate identification of E&S risks and impacts,	All clients of the FI for which prior E&S related information provided to IFC indicated gaps in the FI's due diligence, e.g., mis-categorization, inadequate identification of E&S risks and

Circumstances permitting, after completing the SSV, the LESS or their designee should have a close out meeting with the client including presentation of findings, conclusions, and recommendations for corrective actions. If follow-up actions need to be implemented, the LESS should try to secure agreement with the client at this time. The Portfolio Officer is responsible for following up with the client on non-technical issues identified during the supervision visit regarding the client's compliance with the E&S requirements.

2.10 Documenting the SSV: The LESS shall document the SSV, along with key observations and interpretations, findings, and conclusions through completion of the FI BTOR, and ensure distribution of the report, containing the CRR E&S language, to the FIG Portfolio Manager and Portfolio Officer, as well as the CES RTL, SL, and regional FI Specialists along with the updated ESRR_(S), and record the findings in the ESRD FI. All other relevant E&S documents provided by the client shall be uploaded to IFCDocs.

2.11 Waiving Supervision Requirements: For portfolio clients for which a supervision waiver is warranted, for example, clients that have no enforceable reporting requirements or are in liquidation, the LESS will prepare a waiver request and shall obtain the approvals from Manager CESI and FIG Portfolio Manager for such a waiver. The approval, bearing signatures from both managers, should be filed in IFCDocs, with notification to the CES QA Team.

2.12 Disclosure of ESAP status of FI-1 and FI-2 Projects and Sub-Projects of Private Equity Fund Clients: For FI-1 and FI-2 projects to which the 2012 Access to Information Policy (AIP) applies, the LESS shall update the implementation status of any ESAP items that were disclosed in the Summary of Investment Information prior to the project's approval, after such information has become available (i.e., when such information is provided in the AEPR submitted by the client or is obtained during a SSV).

The LESS shall record such information in ESRD FI by updating the ESAP item status in ESRP 9 "Supplementary Action" section, and generate a two-column table from ESRD FI for disclosure at the Project Disclosure website. For private equity fund projects to which the 2012 AIP applies, the LESS shall review and verify the categorization of the fund's sub-projects, prior to the disclosure of the relevant information pertaining to its high-risk sub-projects and any other sub-projects that may be disclosed on a best-efforts basis.

2.13 Disclosure of Non-Public Information under Exceptional Circumstances: In exceptional circumstances, where an AEPR review or supervision visit, or information provided from other sources, indicates that the disclosure of certain non-public information would be likely to avert imminent and serious harm to public health or safety, and/or imminent and significant adverse impacts on the environment, the LESS shall immediately consult with the RTL and SL and inform the client to take suitable action, and shall record the findings in the ESRD FI. In the event that the client is unable to address the matter, the LESS will inform the Portfolio Officer and consult with the Manager CESI, and prepare recommendations for the Director CES and the Director of the Investment Department (and, where applicable, the Regional Director) in accordance with IFC's AIP.

2.14 XPSR: If the project is selected for evaluation as part of IFC's XPSR program, the LESS will provide written input to the XPSR to the Portfolio Officer. The LESS prepares for the XPSR by reviewing the XPSR reporting template and guidelines available on IEG's Intranet site (see *Expanded Project Supervision Report* in Rules and Tools) and all available historical project records including in IFCDocs, ESRD FI, the M-drive and through discussions with previous LESSs on the project. The LESS will schedule a SSV if necessary to assemble complete, up-to-date project information. Based upon the review, the LESS shall assess the project's long-term E&S impact and IFC's appraisal and supervision performance in accordance with the IEG guidelines and record the conclusions in the XPSR report template; request review and approval from the CESI SL; and when approved, send the completed XPSR contribution to the Portfolio Officer for incorporation into the XPSR. The LESS will upload the completed XPSR input to IFCDocs.

2.15 Managing Changed Circumstances: The Portfolio Officer should inform the LESS if the client is expected to change or has changed its business. If the client reports a plan to enter into a new business line, the LESS will evaluate the E&S implications on the FI portfolio of any proposed change in business. Based on this evaluation, the LESS will determine whether there would be any change in the applicable performance requirements that the FI would need to apply to its portfolio and require the client to adjust its ESMS. If there is a change in the performance requirements, the LESS will inform the Portfolio Officer for action.

2.16 Managing Knowledge Gap (KG) Clients: KG clients are portfolio clients to which IFC 1st disbursement was made 15 or more months previously that do not yet have an ESRR_(S) score; or, portfolio clients with an ESRR_(S) score older than two years. The definition applies to portfolio clients with an existing IFC balance of more than \$0, with reporting requirements, but, it does not apply to clients with the lead project being FI-3 with no E&S requirements. KG clients are mandatory for SSV in annual SSV planning, unless other circumstances warrant a supervision waiver. See paragraph 2.7 of this procedure for more information.

2.17 High Risk List: The RTL is responsible for requesting regionally mapped CES Specialists to identify projects that have a high E&S risk and should therefore be flagged to CRC, seeking concurrence with the respective SL. High E&S risk may be attributed to projects due to poor E&S compliance (ESRR 4 and 3, where applicable), high portfolio risk, reputational risks to IFC, and/or CAO cases. For further guidance on identification, listing and updating of high risk list projects see ESRP 10 (Rules and Tools).

2.18 Quarterly Portfolio E&S Compliance Reports: The ACS will provide, on behalf of CES the Portfolio Department, quarterly FI portfolio E&S compliance reports that summarize the E&S performance of each regional portfolio, and the compliance status of each client and request the Portfolio Officers of clients with compliance issues to follow up with the clients, involving the LESS as necessary to resolve outstanding issues.

2.19 Managing Eventualities in Investment Projects: If during project supervision, a complaint is filed, there is interest from civil society organizations and or interest from IEG or CAO, refer to *ESRP 5: Managing Eventualities in Investment Projects* (see Rules and Tools).

3. Roles and Responsibilities

3.1 The CESI SL is responsible for:

- Determining, in consultation with other Sector or Regional TLs, the assignment of the LESS and Support Environmental and Social Specialist (if relevant) for supervising projects that have moved to portfolio;
- Considering and approving the waiver of E&S CODs as deemed appropriated; and
- Clearance of the E&S XPSR contributions.

3.2 The RTL is responsible for:

- Preparing with input of the CES Specialists, QA Team, SLs, and regional Portfolio Managers the Annual SSV Plan, and ensure its delivery; and
- Reviewing High Risk Projects records and inputs.

3.3 The LESS is responsible for:

- Confirming if the project CODs have been met, informing the SL and TRL or Portfolio Officer of any E&S CODs not complied with, obtaining CES Manager approval to waive CODs, and documenting these in the ESRD FI;
- Checking the AEPR for adequacy and asking the TRL or Portfolio Officer to obtain any information still needed;
- Reviewing the AEPR and other matters reported pertaining to E&S issues, assigning an ESRR score, providing the CRR input and suggesting through the Portfolio Officer corrective and follow-up actions with the client as required, within 30 days upon receipt of the AEPR by CES;
- Communicating with the client and conducting a field visit as required to carry out supervision; assigning an ESRR score, providing the CRR input and suggesting through the Portfolio Officer corrective and follow-up actions with the client as required;
- Preparing and providing the Portfolio Officer with the E&S XPSR input;
- Updating the High Risk List upon request of the RTL; and
- Informing the Portfolio Officer, consulting with the Manager CESI, and preparing recommendations for the Director CES and the Director Investment Department (and, where applicable, the Regional Director) about exceptional circumstances.

3.4 The ACS staff is responsible for:

- Checking that the AEPR is logged in IFCDocs, producing the AEPR cover sheet, and sending it to the LESS;
- Updating the timeline in iDesk, specifying the date the AEPR was received by CES, the AEPR review due date, and the name of the Specialist reviewing;
- Entering Supervision data into iDesk Supervision timeline;
- Updating the ESRR score in the Company Reference Database (CRD) after completion of the AEPR review and SSV mission, and updating the CRR language in iDesk ESRR field after the updated ESRR has been pushed from CRD to iDesk;
- Closing the AEPR Review Management timeline in iDesk specifying the date the review was completed;
- Updating the AEPR follow-up field in the iDesk timeline;
- Preparing and providing FIG with the Quarterly Portfolio E&S Compliance Reports; and
- Updating the Development Impact Tab indicators in iDesk.

3.5 The Manager CESI is responsible for:

- Considering and approving the waiver of E&S CODs as deemed appropriate;
- Reviewing exceptional circumstances requiring a non-public information disclosure;
- Making recommendation to the Director CES in relation to action required in response to those exceptional circumstances; and
- Approving the supervision waiver as needed.

3.6 The Director CES is responsible for:

- Making a determination, in conjunction with the Director Investment Department (and, where applicable, the Regional Director) if a disclosure should be made because of an exceptional circumstance.

4. Records and Documentation

4.1 The following should be recorded in the ESRD FI:

- The AEPR review;
- The SSV finding and analysis, and
- The list of follow-up actions for the client and follow-up actions implementation status.

ESRP10: Environmental and Social HIGH RISK PROJECTS LISTING

1. Purpose and Applicability

- 1.1 The environmental and social (E&S) High-Risk List (HRL) is a group of projects that require closer scrutiny and supervision due either to highly significant E&S risks or because the projects have attracted the attention of third parties, such as Civil Society Organizations and project-affected people and/or media for alleged E&S shortcomings, impacts, and associated reasons.

2. Procedure

2.1 Selection Criteria:

Placement of projects on the HRL shall adhere to the following criteria:

- Criterion 1: All projects that are open Office of the Compliance Advisor/Ombudsman (CAO) cases;
- Criterion 2: All projects with an Environmental and Social Risk Rating (ESRR) of 4;
- Criterion 3: Selected projects with an ESRR of 3 that encompass very significant E&S risks and/or with a sponsor that has demonstrated very poor E&S management or performance; and/or
- Criterion 4: Projects that have attracted negative Civil Society Organization, public, or media attention for perceived E&S risks; and/or events and/or activities.

- 2.2 **Periodic Monitoring of the CESI Lead Environmental or Social Specialist (LESS) Portfolio:** The CESI LESS is responsible for periodic monitoring (quarterly at a minimum) of investment projects for which he/she has been assigned. In the event that any of these projects meets any of the above criteria, the LESS is responsible for notifying the Regional Team Leader (TL) of this development. The Regional TL will make the final decision regarding inclusion of the project on the HRL and will ask the LESS to upload the project into the HRL database as a *proposed addition* and to furnish the required information.

- 2.3 **Periodic Updates of HRL Project Data:** At least quarterly, or in response to any event or new development affecting any project on the HRL, the LESS for each HRL project will review and update project information on the HRL site. As part of this periodic review, the LESS will discuss and reach agreement with the Regional TL on those projects that the LESS proposed to drop from the HRL due to resolution of the issue(s) that originally placed the project into the HRL database. If the Regional TL and LESS are in agreement, the LESS will include the affected project in the *proposed drop* category of the HRL. The RTL is responsible for maintaining the Industry TL and the Regional Manager informed of any update to the HRL in his/her region.

- 2.4 **Mandatory HRL Database Information Update:** Information that shall be updated in the HRL database includes the following:
- Rationale for HRL Inclusion:** This section provides the reasons why the affected project was included on the HRL. These reasons should be aligned with the key issues selected for the project.
 - Important Recent Developments:** This section describes events or new developments that are related to the High-Risk Criteria for this project that have taken place since the last update.

- Recent IFC Visits/Client Interaction:** This section briefly describes any significant interaction aimed at improving High-Risk conditions for the affected project that IFC has had with the client.
- Next Steps:** If the LESS has reached agreement with client/Investment Officer/Portfolio Officer/CAO/government agency/non-governmental organizations, or any other stakeholder on follow-up actions in relation to the High-Risk issues associated with the project, those actions should be described in this section. The LESS is required to include who is responsible for each specific ameliorative action and its associated completion date. Completion timeframes at a minimum should target realistic completion dates for improvement actions to be implemented.
- E&S Risk Current Situation:** This section provides a menu to select one of the following options:
 - i) Tends to Improve; ii) Same Level of Risk; iii) Tends to Deteriorate.
- Key Issues:** From a menu of risks, the LESS is responsible for selection of up to three issues that are linked to the decision to include the affected project on the HRL.

2.5 **Programming Quarterly HRL Database Reviews:** Implementation of quarterly reviews will follow an annual calendar proposed and maintained by Quality Assurance that will incorporate mandatory due dates for the regular HRL updates.

2.6 **HRL Quarterly Reports:** QA is responsible for preparation of an HRL report after each quarterly update.

3. Roles and Responsibilities

3.1 The **LESS** is responsible for:

- Identifying among his/her projects those that qualify as HRL projects as well as those that should be dropped from the list and propose to the TL its inclusion or removal from the HRL; and
- In the event of any new development and every three months, updating the information on the HRL.

3.2 The **Regional TL** is responsible for:

- Periodic monitoring of the HRL projects that belong to his/her region and keeping the Regional Manager and the Industry TL informed of any significant change or any new project added to the HRL; and
- Getting clearance for addition to or removal from the HRL list any projects that belong to his/her region.

3.3 **Quality Assurance** is responsible for:

- Maintaining a calendar with the due dates for quarterly HRL updates; and
- Preparing an HRL report every three months and after the above-mentioned updates.

4. Records and Documentation

4.1 The following should be recorded:

- The current HRL in the database.
- The HRL reports prepared for Quality Assurance for the last 12 months.

ESRP 11. E&S REQUIREMENTS FOR ADVISORY SERVICES PROJECTS

1. Purpose and Applicability

1.1 To provide guidance for CESI on incorporation of E&S risk management considerations into Advisory Services (AS) projects. This procedure applies to all AS projects deemed High Risk by AS staff and those AS projects related to IFC investment services (IS).

1.2 CESI Team for AS Support has been established to assist with coordination of CESI assistance to AS projects needs.

1.3 The IFC Exclusion List (see Rules and Tools, Guidance), applies to all AS projects,

2. Procedure

2.1 AS projects with an IS link

For all AS projects for which the proposed beneficiary is a former or current IFC partner, the assigned CESI specialist will liaise with the CESI LESS identified in the iDesk Project Team to ensure coherence between the Investment and AS projects in terms of E&S requirements

For all AS projects where the proposed beneficiary is a current IFC partner, the viability and acceptability of providing AS services to the partner will consider the supervision Environmental and Social Risk Rating (ESRR_(S)) for the IFC partner. The AS Transaction Leader (TRL) will coordinate with the investment/portfolio officer and the CESI LESS identified in the iDesk Project Team to verify that the client has an ESRR score of 1 or 2 and is thus in good standing so that the AS project may proceed.

If the partner's E&S performance is ESRR_(S) 3 or 4 (Partly Unsatisfactory or Unsatisfactory), the CESI specialist will inform the AS TRL that partner performance should be improved prior to approval and funding of any AS project. The CESI specialist, moreover, shall suggest areas for improvement to beneficially affect the ESRR_(S) score; and, if requested in the offing, revisit the proposed AS project and reevaluate the partner's E&S performance.

If the AS TRL and CESI specialist believe that the timing of the AS project and its potential positive impact should not wait for improved partner performance, a Waiver to Provide Advisory Services shall be prepared by CESI and the AS TRL and submitted for approval by the RTL and the Manager CESI (see Rules and Tools, Document Formats). In general, a waiver may be approved if the proposed advisory services would positively affect one or more of the ESRR_(S) scoring factors contributing to ESRR_(S) 3 (Partly Unsatisfactory) or 4 (Unsatisfactory) score (e.g. Management Factors, Performance Factors, or Communication Factors).

For AS projects being processed at the same time as an IS transaction, any specific environmental and social (E&S) requirements affecting the AS project will be discussed among CESI staff and the

currently assigned CESI LESS to ensure that these mitigation measures are consistent with the E&S requirements for the IS transaction. In case of conflict, the E&S requirements for the IS transaction will prevail.

If simultaneous processing is not feasible, the AS Unit Line Manager/Unit Manager may permit the AS transaction to be treated as a Standalone AS project in accordance with the processing requirements described below.

When, from an E&S perspective, an AS project proposed for an IFC partner is viable, primarily by the ESRR_(S) score as discussed above, the procedure for E&S risk management is similar to that for Stand Alone projects presented below and through use of the methodology defined in the Flow chart for AS project + IFC Investment (see Rules and Tools – Guidance).

2.2 Standalone AS projects

For AS projects not associated with an existing IFC partner or IS transaction, AS staff will review the proposed mandate and assign an E&S risk rating associated with the AS project (e.g. No, Low, Medium, High). The methodology for assessing the level of project risk by AS staff is defined in the Flowchart for Standalone AS (see Rules and Tools - Guidance).

For High Risk AS products, the AS TRL shall request assignment of CESI staff to the project by contacting the CESI Team Leader for AS Support (see Rules and Tools - Guidance). A CESI specialist will be assigned to ensure that an appropriately qualified professional assists the AS TRL in project analysis and preparation of an AS E&S Memo (see Rules and Tools – Document Formats).

The assigned CESI specialist shall provide recommendations to the AS TRL on the design of E&S good practices for the AS project and create a permanent, auditable record through completion of an AS E&S Memo (see Rules and Tools – Document Formats).

The AS E&S Memo will contain an analysis of the risks considering the requirements of IFC's Sustainability Framework, define specific ameliorative measures required to close observed gaps, and reduce identified risks to achieve consistency with the IFC Sustainability Framework.

3. Roles and Responsibilities

3.1 The Advisory Services (AS) TRL is responsible for:

- Evaluating impacts and outcomes of a proposed AS project and determining if these could have potential E&S risks;
- Incorporating E&S risk management considerations into High Risk AS project design with support from CESI;
- In case of existing investment projects having an ESRR_(S) score of 3 or 4 and agreement among CESI and AS TRL that AS should proceed, preparing a Waiver to Provide Advisory Services and submitting the Waiver for approval to the RTL and the Manager CESI (see Rules and Tools, Document Formats);

3.2 The Advisory Services Unit Line Manager/Unit Manager are responsible for:

- Signing off that each project has followed the applicable requirements of this procedure upon approval of PDS Concept/Approval;

3.3 CESI specialists are responsible for:

- Providing performance information (e.g. ESRR_(S) scores) on existing IS partners or transactions potentially linked to AS products;
- In case of existing investment projects having an ESRR_(S) score of 3 or 4, informing the ASTRL that IFC partner performance should be improved prior to approval and funding of any AS project, and suggesting areas for improvement to beneficially affect the ESRR_(S) score;
- And, if requested in the offing, revisit the proposed AS project and the partner's E&S performance to determine if partner performance has improved;
- As needed, assisting the AS TRL with preparation of a Waiver to Provide Advisory Services, submitting the Waiver to the RTL and the Manager CESI for consideration and approval (see Rules and Tools, Document Formats);
- Analyzing specific issues and designing mitigation measures for proposed High Risk AS projects upon request from the AS TRL; and
- Preparing the AS E&S Memo and transmitting it to the AS project team and storing it in the Advisory Services Operational Portal Document Management System (See Rules and Tools – ACS Hub).

3.3 Team Administrative Client support (ACS) is responsible for:

- Assisting CESI staff with filing all project documents in accordance with CESI Record Keeping Protocol (Rules and Tools – Guidance);
- Assisting CESI staff with filing all AS project documents in the Advisory Services Operational Portal Document Management System (See Rules and Tools – ACS Hub).

3.4 CESI Team Leader for AS Support is responsible for:

- Coordination with ITL or RTL to ensure appropriately qualified CESI staff is assigned to proposed High Risk AS projects, and then notifying the AS TRL;
- Overseeing delivery of E&S services for AS projects;
- Assisting CESI staff with preparation and tracking of proposed Waivers to Provide Advisory Services and storage of approved waivers in the Advisory Services Operational Portal Document Management System (See Rules and Tools – ACS Hub); and
- For AS projects linked to existing IS partners, ensuring consistency of E&S requirements and mitigation measures between the Investment Services activity and the AS project.

3.5 The CESI ITL or RTL is responsible for:

- Assisting in the assignment of CESI specialists to AS projects;

- Reviewing proposed Waiver to Provide Advisory Services to proceed with AS projects linked to existing IS partners with ESRR_(S) scores of 3 (partly unsatisfactory) or 4 (unsatisfactory); and
- In case of Waiver to Provide Advisory Services approval, forwarding the approved Waiver to Manager CESI for consideration;

3.4 Manager CESI is responsible for:

- Final approval or rejection of proposed Waiver to Provide Advisory Services linked to existing IS partners with ESRR_(S) scores of 3 (Partly Unsatisfactory) or 4 (Unsatisfactory).

4. Records and Documentation

- Completed AS E&S Memo (see Rules and Tools – Document Formats) for proposed High Risk AS projects with an analysis of project risks and recommended ameliorative measures required to close observed gaps and reduce identified risks to achieve parity with the Sustainability Framework; and, filing the document in the Advisory Services Operational Portal Document Management System (See Rules and Tools – ACS Hub); and
- ITL/RTL and Manager CESI-approved Waiver to Provide Advisory Services clearing AS services for IFC partner projects with ESRR_(S) of 3 or 4; and filing the document in the Advisory Services Operational Portal Document Management System (See Rules and Tools – ACS Hub).

5. Annexes

- None

ESRP 12. UPDATE AND GENERATION OF IFC ENVIRONMENTAL AND SOCIAL REVIEW PROCEDURES

1. Purpose and Applicability

This procedure describes the steps for updating existing and generation of new environmental and social (E&S) Review Procedures in IFC's CESI Environmental and Social Review Procedures (ESRP) Manual.

The procedures contained in the E&S Review Procedures Manual are updated by the Quality Assurance Team (QA Team).

2. Procedure

- 2.1 **Proposing New or Revised E&S Review Procedures:** CESI staff may suggest new or revised ESRP procedures to enhance investment review practices, supervision practices, and projects' records. Suggested new or modified E&S Review Procedures should be submitted to QA Team (for example by e-mail) describing the proposed change or content of a new procedure along with the purpose, the reason why this change or addition is deemed necessary, and how the proposed change will improve written instructions and/or current practices. Proposed ESRP Manual additions and modifications to existing procedures in ESRP Manual, if implemented should be summarized by the QA Team in an explanatory format that clearly specifies the existing situation, the rationale for a proposed change or new procedure, and the nature of suggested changes or additions. (See Annex 5.1).
- 2.2 **New or Revised Procedures Validation:** Proposed new or revised procedures will be discussed among the CESI Team Leaders (TLs) and the Managers CESI. Only those new procedures and changes to existing procedures accepted by this group and cleared by Director CES will be implemented by the QA Team with exception of provisions described in paragraph 2.6.
- 2.3 **E&S Review Procedure Development:** The QA Team has principal responsibility to introduce the proposed new or modified E&S Review Procedure adhering to the mandatory elements presented in Annex 5.2. The Manager Policy and QA will forward a new version of the procedure(s) to the Director CES for its final approval.
- 2.4 **E&S Review Procedure Modification Peer Review:** When, in the opinion of the Manager Policy and QA, the scope and nature of a new procedure or the proposed changes for an existing E&S Review Procedure require a more thorough analysis, the proposed new or modified E&S Review Procedure will be reviewed by a core team of staff appointed by the Manager Policy and QA and Managers CESI. The peer review team shall check for the following elements:
 - Scope and content of the modification/new procedure and its consistency with IFC's Social and Environmental Sustainability Framework;

- Changes are compatible with operational practices in the context of IFC's Project Cycle and ongoing Business Process Improvements;
- Viability of the modification to substantially achieve the stated objective for the modification of an existing or new E&S Review Procedure.

2.5 **Director CES Approval:** When the new or revised E&S Review Procedure is deemed completed, the Director CES will approve the ESRP in writing in accordance with the approval format presented in Annex 5.3.

2.6 **Modifications to the ESRP Manual With No Material Impacts on Current Operations Practices:** Those modifications to current procedures that do not entail material change in current CES operations practices; and, changes made for the purpose of updating, improving, expanding, clarifying or correcting errors in the text of the procedure, are exempt from the above described evaluation and approval process. In such cases changes will be managed as follows:

- a. QA Team will propose the changes to CESI Team Leaders who will have a five (5) working day no-objection period to evaluate and to comment; comments or objections received will be discussed, modified and proposed again;
- b. After expiration of the 5 working day no-objection period, the proposed change will be sent to Manager CESPQ and Manager CESI who will have three (3) working days to approve or object to the proposed changes; if no objections to proposed changes are received from either Manager CESI or Manger CESPQ then,
- c. QA will make the proposed changes to the procedure; publish a revised version of the ESRP Manual Table of Contents; and the revised procedure in Rules and Tools.

2.7 **Dissemination of Revised or New E&S Review Procedures:** The approved new or revised E&S Review Procedure Version Number and Currently Approved Revision date will be incorporated into the revised Table of Contents of the E&S Review Procedures Manual and into the manual itself. The Version Number and Currently Approved Revision date numbers will be utilized in the Manual Table of Contents and in the header of each E&S Review Procedure to clearly document the Version and Currently Approved Revision date. The QA Team will post the new document(s) in Rules and Tools and will remove obsolete versions.

2.8 **E&S Review Procedures Version Number and Currently Approved Revision Date Recordkeeping:** The QA Team will maintain a record of each E&S Review Procedure Version Number and the Currently Approved Revision date that have been approved, changes that have been made and, the date on which they are put into effect. Each subsequent E&S Review Procedure Version Number and Currently Approved Revision released for internal and external use will include a visual designation identifying text modifications and amendments that have been made to individual E&S Review Procedures since the previous E&S Review Procedure Version Number including the date on which modifications became effective.

2.9 Informing IFC of Changes in the E&S Review Procedures Manual: All changes to the ESRP Manual are to be made effective immediately after approval by the QA Team in Rules and Tools. All accepted changes will be communicated to CESI staff to ensure awareness and understanding of the modification. The QA Team will ensure that the updated E&S Review Procedures Manual is posted on IFC's website, with a note referring the reader to the Table of Contents that provides both the Revision Number and the Currently Approved Revision Date.

3. Responsibilities

3.1 CESI staff is responsible for:

Suggesting new or revised E&S Review Procedures. Any CESI staff may be a proponent and suggest new or revised E&S Review Procedures

3.2 The Industry and Regional TIs are responsible for:

- Reviewing new or revised E&S Review Procedures presented by QA Team.
- Identifying or promoting proposed new E&S Review Procedures that may be needed to ensure consistency of investment review and supervision objectives, activities, and compliance with the Social and Environmental Sustainability Framework.
- Discussing proposed changes or additions to IFC's CESI E&S Review Procedures Manual in conjunction with the Manager CESI.

3.3 The QA Team is responsible for:

- Developing, distributing, and maintaining the ESRP Version Number and the Currently Approved Revision for issuance and publication;
- Supporting the procedure-defined process for new or revised E&S Review Procedures;
- Maintaining a record of each E&S Review Procedure Version Number and the Currently Approved Revision date for all E&S Review Procedures changes that have been made, and the date on which they are put into effect;
- Updating Rules and Tools with most updated version of existing procedures and with new approved procedures.
- Intramural and extramural dissemination of Revised or New E&S Review Procedures and the Manual Table of Contents; and
- Maintaining the E&S Review Procedures Manual Table of Contents updated with the most current E&S Review Procedures Version Number and Currently Approved Revision dates.

3.4 Managers CESI and CESPQ are responsible for

- Approving procedure changes described in paragraphs 2.4 and 2.6

3.5 The Director CESH is responsible for:

- Approving new or revised E&S Review Procedures in writing for issuance in accordance with the format provided in Annex 5.3.

4. Records and Documentation

- 4.1 The most updated version of each E&S Review Procedure is available in Rules and Tools.
- 4.2 IFC-CESI E&S Review Procedures and Flowchart constructed in accordance with Mandatory Elements of IFC-CESI Environmental and Social Review Procedures specified in Annex 5.2.

5. Annexes

5.1 Environmental and Social Review Procedure Proposed Addition or Modification Form:

Date	
Requested by	
ESRP Number and Affected Section (e.g., 1.2.5)	
Current ESRP Version Number/Currently Approved Revision (e.g., 5/March 18, 2010)	
Suggested Text Revision (expand as needed)	
Objective of the Proposed Modification	
Status of Suggested Modification	Date Proposed: How Resolved: Date Resolved:

5.2 Mandatory Elements of IFC-CESI E&S Review Procedures:

All IFC-CESI E&S Review Procedures destined for the E&S Review Procedures Manual are to be developed in accordance with the content and format guidance provided below, entitled, *E&S Review Procedures Text Requirements*.

5.2.1 E&S Review Procedures Process Flowchart:

A flow diagram that defines the sequential steps in the E&S Review Procedure along with specific responsibilities, approvals, and documentation has to be prepared for new procedures. When existing procedures are changed it should assess if the flowchart has to be modified as well.

5.2.2 E&S Review Procedures Text Requirements:

- Header:

- Footer:

Page number and total number of pages in the E&S Review Procedure.

- Organization and Content:

Purpose and Applicability

This section shall contain a short statement of the objective and shall define the extent of the application of the procedure and its specific relationship to IFC's Project Cycle.

1. Procedure

This section describes the activities addressed by this element of IFC's Project Cycle and summarizes management-approved guidance and responsibilities. Essential supporting guidance, document formats, calculation and estimation spreadsheets, and other professional materials associated with the procedure shall be referenced in the procedure and stored in a relational database entitled Rules and Tools. **Tools** should include applicable document templates and formats that expand on specific steps in the procedure as well as calculation and estimation spreadsheets and diverse guidance.

2. Responsibilities

This section identifies responsibilities and interfaces for the activities described in the procedure.

3. Records and Documentation

This section defines the documents developed during the implementation of the procedures that are required to be retained as records.

4. Annexes

Annexes are an optional content of a procedure. Each Annex shall have an individual designation (e.g., Annex A; Annex B) to be used to expand upon specific points made in

thetext that would otherwise clutter the E&S Review Procedure. Annexes should be designed and written to maintain simplicity in the procedure body and to provide needed illustrations or details independent of the main text to aid the CESI Specialist in understanding the specifics of the procedure.

5.3 Mandatory Director CES Written Approval Format for E&S Review Procedures Dissemination:

IFC-CESI Environmental and Social Review Procedures Approval			
Procedure Number	Procedure Title	Version	Current Revision Date
ESRP-X	Title	#	MM/DD/YYYY
ESRP-X	Title	#	MM/DD/YYYY
ESRP-X	Title	#	MM/DD/YYYY
Approved:		_____	
		William Bulmer, Director CES	
		Date: MM/DD/YYYY	

ESRP 13. PHASED DEVELOPMENT PROJECTS

1. Purpose and Applicability

This procedure describes processes for the environmental and social (E&S) appraisal and supervision of IFC's investments in *phased development projects*. For the purposes of this procedure, *phased development projects* are activities where IFC makes a direct financial investment, usually equity, in a company engaged in preliminary development stage activities such as scoping, design, planning, exploration or feasibility studies prior to any final decision being taken to proceed to full project development (i.e. a go / no go decision) of an asset. This procedure is not applicable to InfraVentures projects which should be processed in accordance with ESRP 14.

2. Procedure

2.1 Appraisal of phased development projects: IFC often will make its investment in an investee company that holds certain license and/or intellectual property rights over an asset (such as a natural resources exploration license, concession agreement or a technology development agreement). Equity investments are most common since such companies are not yet producing any revenue and typically have no positive cash flow (to repay debt). As a condition of the initial investment, the investee company is required to apply IFC's Performance Standards to all stages of project development for the entire time that IFC remains an investor.

The due diligence approach by the E&S specialist at appraisal should be as follows:

- Appraisal should consider the actual risks and impacts resulting from the development stage activities being financed (i.e. use of IFC proceeds). Specialists should be mindful of potential prospective impacts should the project be developed, but given inherent uncertainties over whether any later-stage development will result, the form it will take, and the nature of any related impacts, these should not be reviewed or discussed in detail.
- The investee company's Policies, Standard Operating Procedures and Environmental & Social Management System, together with Policies relating to Health, Safety, Environment & Communities (HSEC) (if any) should be reviewed and assessed for compliance with PS1.
- If such policies, procedures, systems or documents are missing or incomplete, the investee company should prepare or amend them to be compliant with PS1 requirements, following IFC guidance as needed. Any final HSEC policy or similar should include clear documentation of the investee company's commitment to meet the Performance Standards in connection with its existing and future activities and operations. Sector specific examples of HSEC Policy and Procedures templates, prepared by CRK may be found in Rules & Tools. The template is a framework ESMS that can be expanded / adapted with site-specific mitigation measures matched to specific investee company circumstances as the project develops. This template should be shared with the investee company during appraisal as it is usually possible to complete a draft while on site. IFC will monitor implementation of the ESMS throughout the life of its investment.
- Management of stakeholder expectations is very important for phased development projects. Local communities may confuse preliminary studies with the development itself. Consequently, active engagement will be required to explain the nature of the early works, the phased development and

potential outcomes. During appraisal, specialists should ensure that a Stakeholder Engagement Plan in accordance with PS1 is in place; or if not, appropriate steps are taken to put one in place.

- Categorization of phased development projects should follow the guidance in Paragraph 43 of the Sustainability Policy¹ and Paragraph IN11 of the Interpretation Note on Categorization². Typically the risks and impacts of early stage investments are limited and readily mitigated or reversible and these are therefore category B investments. Specialists should however consider the potential speed of likely development and IFC's entry point with respect to the project phase which may influence the level of risk associated with the project and hence its categorization.
- The ESRS / ESAP should be written and disclosed in accordance with IFC's Access to Information Policy, and should describe the impacts and mitigation of the activities covered by IFC's financing. If there is sufficient information to inform the specialist that the future development could potentially have major impacts, it would be appropriate to note that IFC is aware of these and will consider such impacts and their proposed mitigation at the relevant time. In preparing the ESRS and ESAP, specialists should not attempt to be so prescriptive as to pre-empt the findings of any future ESIA that may be required. Throughout appraisal, as well as in the drafting of disclosure documents, and in negotiating the ESAP, the E&S specialist should consider the practicality, timing and prioritization of any E&S assessment or mitigation measures required by IFC, ensuring such actions are linked to specific impacts relevant to the stage of development³.

2.2 Supervision of phased development projects: Specialists should follow regular ESRP 6 procedures in the supervision of such projects. Because the nature and timing of phased development projects are often uncertain, the project team and E&S specialist must monitor the development of the project carefully and adjust their advice and guidance to the company in light of potential shifts in project focus or timing. Guidance by specialists may also be required on matters such as preparation of further documentation, for example ESIA's or RAPs (or their terms of reference) for future project development.

Specialists must be cognizant of the constraints of a company with no operational cash flow. Specialists should help guide companies in ensuring appropriate flexibility in timing of ESAP action items, bearing in mind the stage of development of the project. Consideration should be given to prioritization of required actions; for example, (i) high priority items that are required to mitigate actual or imminent impacts (ii) items that would be required prior to project construction, and (iii) items that would be required prior to full commercial operations.

¹ IFC Policy on Environmental and Social Sustainability, 2012 (Paragraph 43 states: "Where the use of proceeds of IFC financing and the environmental and social footprint of the business activity are not fully specified at the time of IFC due diligence, or IFC invests in a pre-development phase of a business activity, IFC will determine the category based on risks inherent to the particular sector and the context of the business activity's setting.")

² IFC Interpretation Note on Environmental and Social Categorization, 2012:

<http://ics.ifc.org/spark/ces/Sustainability%20Framework%202012%20%20Interpretation%20Note/Interpretation%20Note%20on%20E%20and%20S%20Categorization.pdf>

Paragraph IN 11 concludes: "when IFC's investment... .. financed activities which are for exploratory / investigative work, the IFC's investment would typically be categorized as B".

³ For example, in the early stage of project development, where funding may be limited, baseline studies are likely to be a high priority, whereas some other actions, such as engagement of full time E&S staff positions (which would be needed for project development) could be covered by the investee company engaging appropriate consultants, pending development.

It is the nature of phased development projects that E&S risks and impacts and appropriate mitigation measures change as the nature of project activities evolves, sometimes over an extended timeline of many years. Specialists should monitor such changes during supervision.

IFC's E&S supervision oversight ends with IFC's exit from the phased development investment.

2.3 Procedure for future project development: IFC may make follow-on investments in a phased development investee company. Such subsequent investments often fund additional scoping, design, planning, exploration or feasibility studies by the investee company and do not significantly alter the impacts of the original investment. These investments may be financed by mechanisms that do not require additional E&S processing (e.g. rights issues). Guidance for specialists on such financial mechanisms will be issued in due course.

IFC may invest in a later phase of the project development (e.g. construction) where the investee company's activities and operations (and resulting impacts) are materially different from those reviewed at the time of IFC's initial investment. In such cases any IFC investment would be considered a new project, processed under a new IFC project number and should be subject to appropriate IFC ESDD and public disclosure prior to Board approval. Categorization should be determined as per paragraph 40 in the Sustainability Policy and ESRP 2.

Even if IFC does not provide additional financing for a project's development phase, the E&S commitments of the original investment remain in place as long as IFC maintains a financial interest. This means that any future development should continue to comply with IFC's at-approval E&S requirements, including Performance Standards compliance⁴, and that all phases of project development are subject to E&S supervision. Project recategorization may be considered if E&S risks and impacts change in a material manner as the project evolves.

2.4 Legal Documentation:

The investee company's undertakings to comply with IFC's Performance Standards, and other E&S obligations are typically covered in IFC's investment agreements with the investee company (e.g., subscription agreement, policy agreement, undertaking letter, etc.). The specialist should work with the project lawyer on the appropriate form of documentation with the intention of incorporating standard policy covenants, while considering the practicality of remedies and enforcement value.

There are circumstances where an investee company may not be able to enter into such agreements with IFC (whether due to corporate law of company's jurisdiction or regulatory rules in the case of publicly listed companies). In such cases, the E&S specialist should discuss alternative solutions with the transaction teams.

3. Responsibilities for Specialists

⁴ For example, activities with significant impacts will need to comply with PS1 requirements for a full ESIA, stakeholder engagement, and, where appropriate, independent monitoring of the project's social and environmental performance. The investee company should also ensure that social and environmental assessment documents associated with such a development are consistent with IFC's Performance Standards and EHS Guidelines, publicly available and consulted upon in accordance with PS1 prior to the start of construction. This is the case notwithstanding the initial categorization of the investment (such categorization being relevant only to IFC's internal process, and not to the investee company's compliance obligations per se).

Responsibilities are the same as for ESRP 2,3,4 and 6.

3.1 Records and Documentation

Documentation generally follows ESRP 2,3 and 4 for the initial investment. However, there may be significant documentation generated in supervision, especially where the E&S specialist becomes involved with guiding the investee company and its consultants on preparation of E&S documentation for project development. Such documents should follow the requirements of ESRP 6 but additionally may include ESIA's, RAPs, etc. Final versions of such documents produced by the investee company should be filed in iDesk and disclosed on IFC's website in accordance with the Access to Information Policy.