

Environmental *and* Social Review Procedures Manual

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Environmental *and* Social Review Procedures Manual

Content: The Environmental and Social Review Procedures (ESRP) provide guidance to the Project Team on the process for environmental and social risk management during Appraisal and Supervision of Investment, Advisory and Upstream Advisory projects to meet the objectives of the IFC Sustainability Framework.

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Key acronyms, words, phrases: CES, ESAP, ESRS, ESRO, E&S accountability, E&S due diligence, E&S responsibility; environmental, social and governance (ESG); environmental and social review procedures (ESRP); HRP, LESS, project Appraisal, project Supervision, Sustainability, Sustainability Framework, Sustainability Policy.

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I. Background & Purpose

- 1.1. IFC's Sustainability Framework consists of two IFC policies: the [Policy on Environmental and Social Sustainability](#) (Sustainability Policy) and the [Access to Information Policy](#) (AIP) which define respectively IFC's commitments, roles and responsibilities related to E&S sustainability and IFC's commitment to transparency and good governance in its operations and the Corporation's institutional disclosure obligations related to its investment and advisory business. The Sustainability Framework also includes the IFC [Performance Standards](#) (PS) on Environmental and Social Sustainability which define Client responsibilities with respect to E&S risk management. The [IFC/MIGA Independent Accountability Mechanism \(CAO\) Policy](#) outlines Compliance Advisor Ombudsman (CAO)'s mandate and functions, as well as IFC Management's role in CAO cases.
- 1.2. The Environmental and Social Review Procedures (ESRP) Manual provides guidance to Project Teams on how IFC conducts its environmental and social (E&S) risk management process in the Appraisal of prospective projects and the Supervision of portfolio projects for the business activities involving Direct Investments (DI), investments through Financial Intermediaries (FI) and Upstream and Advisory projects.
- 1.3. This version reflects the integration of E&S risk management and opportunities development into IFC's regional vice-presidencies, with a dedicated central E&S Policy and Risk department providing a "second line of defense" risk management function and supporting regional E&S teams.

II. Definitions

List of Acronyms

ACS.....	Administrative and Client Service
ADM.....	Accountability and Decision-Making (framework)
AEPR	Annual Environmental Performance Report
AMR.....	Annual Monitoring Report
AS.....	Advisory Services
ASPI.....	Advisory Services Project Information
BCS.....	Broad Community Support
CAO.....	Compliance Advisor Ombudsman
CAP	Corrective Action Plan
CES	IFC's E&S Policy and Risk Department
CESCS	CES Chief E&S Specialist
CESRM	CES Risk Manager
CLED.....	IFC's Legal Department
CN	Concept Note
CnC.....	(Upstream) Collaboration and Co-development
COC.....	Condition of Commitment
COD.....	Condition of Disbursement
CRF.....	IFC's Risk and Finance VPU
CRM	Concept Review Meeting
CSO	Special Operations Department
CSR.....	Client Supervision Report
CTA.....	IFC's Transaction Advisory Department
DI	Direct Investment
E&S	Environmental and Social
ED	Executive Directors
ESAM	Equity Sales Approval Memorandum
ESAP.....	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESG.....	Environmental, Social and Governance
ESGRM	ESG Regional Manager
ESIA.....	Environmental and Social Impact Assessment
ESMS.....	Environmental and Social Management System
ESRAM	Environmental and Social Risk Allocation Memo
ESRO	Environmental and Social Risk Officer
ESRO-CTA.....	Environmental and Social Risk Officer for Public Private Partnerships and other Transaction Advisory projects
ESRP.....	Environmental and Social Review Procedures
ESRR.....	Environmental and Social Risk Rating
ESRS	Environmental and Social Review Summary
FI	Financial Intermediaries
FPIC.....	Free, Prior and Informed Consent
GBV.....	Gender-Based Violence
H-RP	High E&S Risk PPP Advisory Project
HRP	High-E&S Risk Project
HRP _(A)	High-E&S Risk Project at Appraisal - New Business

HRP _(P)	High-E&S Risk Project in Portfolio
ICP	Informed Consultation and Participation
IEG	Independent Evaluation Group
IESC	Independent E&S Consultant
IFC	International Finance Corporation
IO	Investment Officer (for New Business or Portfolio)
IP	Implementation Plan
IRM	Investment Review Meeting
JVP	Joint Venture Project
L1P	E&S Level 1 Processing Investment Project
L2P	E&S Level 2 Processing Investment Project
L3P	E&S Level 3 Processing Investment Project
L-RP	Low E&S Risk PPP Advisory Project
LESS	Lead Environmental and Social Specialist
M-RP	Medium E&S Risk PPP Advisory Project
MAP	Management Action Plan
MOR	Monthly Operations Report
MoU	Memorandum of Understanding
PDS	Project Data Sheet
PPP	Public-Private Partnerships
PRR	Portfolio Review Report
PL	Project Leader
PS	Performance Standards (IFC Environmental and Social Performance Standards)
PSR	Project Supervision Report
REAL	Regional ESG Advisory Leads
RIL	Regional Industry Lead (for E&S matters)
RM	Risk Manager
RRT	Reporting Requirement Tracker
RSA	Recordable Supervision Activity
RVP	Regional Vice President
SCCP	Summary of Collaboration or Co-Development
SESS	Support Environmental and Social Specialist
SII	Summary of Investment Information
SSV	Site Supervision Visit
SVP	Supervision Visit Plan
T3PC	Tier III Project Committee
XPSR	Expanded Project Supervision Report

Selected Definitions

Co-development project	An in-depth engagement in which IFC co-invests and/or cost shares as a co-sponsor in the co-development of a specific and well-defined project, pilot or operational project and has joint decision-making authority or control over capital and operational expenditures, and as such can secure certain future financing and investment rights.
Collaboration project	A limited scope engagement in which IFC cost-shares specifically-identified activities in coordination with one or more other prospective investors (counterparty(ies)) to cover early stages of project identification/preparation in return for certain future financing and investment rights.
CnC non-pilot	A CnC (Upstream Investment) project that is not a CnC pilot.

CnC pilot	A CnC (Upstream Investment) project where: (i) IFC resources are used to fund capital and/or operational expenditures by (or for) the project with the aim of proving a business model in a specific country or region; or (ii) if IFC has the requisite control to approve or disapprove changes in the capital and/or operational expenditures by (or for) the project with the aim of proving a business model in a specific country or region.
Critical Adverse E&S Event	An event related to health, safety, the environment, workers or communities that meets the criteria for a Critical Adverse E&S Event.
E&S Material Waiver	An E&S Material Waiver is one where: (a) the Client has not implemented, over an extended period, the matter in question (for example, an ESAP item which is not under implementation) and this matter in IFC's opinion remains important; or (b) failure to act on the matter subject to waiver: (i) has enabled a Severe or Critical Adverse E&S Event to occur and that event is ongoing; (ii) increases the risk that a Severe or Critical Adverse E&S Event may occur; or (c) where disbursement would be to assets that were neither subject to ESDD nor to post-Appraisal review by IFC.
Level 1 Project (L1P)	An investment project that is designated E&S Risk Tier 1 as defined by the procedures on investment operations (new business), or an investment project that is eligible for Expedited Processing under E&S Appraisal Track 1 or 2 in the procedures on investment operations (new business).
Level 2 Project (L2P)	An investment project that is neither a Level 1 nor a Level 3 project.
Level 3 Project (L3P)	An investment project that is defined as an E&S High Risk Project (an HRP).
Severe Adverse E&S Event	An event related to health, safety, the environment, workers or communities that meets the criteria for a Severe Adverse E&S Event.
Supervision Monitoring Plan	A plan, developed annually towards the end of the financial year by each RIL and cleared by the relevant ESGRM, and updated continuously thereafter which schedules site supervision visits to portfolio clients. The ESRO provides input to the Supervision Monitoring Plan and confirms that the plan adequately addresses regional HRP _(p) . The frequency and timing of visits to a client varies according to E&S risk and the need to monitor client delivery of key ESAP items.

III. Environmental and Social Governance

E&S Institutional Structure

- 3.1. E&S oversight and risk management within IFC is carried out by E&S management and specialists (hereinafter "E&S teams") who are integrated into regional business operations under the regional vice-presidencies, working closely with the E&S Policy and Risk Department (CES) to support the implementation of the Sustainability Framework across IFC Investment, Advisory and Upstream Operations.
- 3.2. CES oversees E&S risk management and verifies that systems, procedures and capacity are in place to implement the Sustainability Framework. CES has responsibility for the development and interpretation of the IFC's E&S policies and standards, manages IFC's response to E&S-related grievances received from project-affected stakeholders and serves as arbiter in the interpretation of E&S policy and procedures. CES has E&S clearance functions for High-Risk Projects for E&S Material Waivers and on critical decisions for other projects, except for selected projects that are processed entirely by the regional E&S teams as described in Paragraph 3.23. CES reports to IFC's Vice President, Risk and Finance (CRF).

- 3.3. E&S teams within regional departments are entrusted with operational implementation of E&S risk management in line with the Sustainability Policy, integrating this responsibility with Investment, Upstream and Advisory management, working closely with the new investment, portfolio management and advisory teams.
- 3.4. Regional and Industry Departments have a crucial role in E&S risk management. As the primary interface with Clients and partners, these Departments seek opportunities that meet IFC's investment and development objectives. This includes (i) identification and selection of Clients willing and able to meet IFC's E&S requirements, implementing and developing projects in line with IFC E&S requirements, and (ii) the management of the Client relationship during Portfolio.
- 3.5. Operational teams, including E&S teams, provide operational E&S risk management for Clients and for IFC. CES Risk Officers provide E&S oversight.
- 3.6. The Legal Department (CLED) works with project Investment teams and Lead E&S Specialists (LESSs) to appropriately reflect, in the legal agreements, the E&S requirements negotiated and agreed between the LESS, Investment teams and the Client.

E&S Key Roles and Responsibilities

- 3.7. It is the responsibility of IFC Operations staff (including regional E&S teams) to support IFC to meet its obligations under the Sustainability Framework.
- 3.8. *Investment Officers (IO)* are responsible for managing the Investment Operations at the project level across New Business and Portfolio Supervision. As the primary point of contact with the Client/partner, IO support E&S Specialists through constructive dialogue and collaboration between the Client and the E&S team in explaining IFC's Sustainability Framework in general and the specific Client- or project-related E&S requirements. The IO leads the Project Team.
- 3.9. *Project Leaders (PL)* are assigned to Advisory and Upstream Projects and are responsible for managing the project through the Advisory or Upstream Project Cycle.
- 3.10. *Regional Directors (RD)* have overarching responsibility for the organization, delivery and quality of the regional E&S investment support and advisory teams and work products. This includes mapping and relationship management of local and regional civil society organizations and together with the ESG Regional Manager leading the handling of CAO cases from the intake through board approval to monitoring, and of direct complaints received by IFC. The RD is the ADM Decider for Tier I regional projects and an ADM Mandatory Reviewer for Tier II/III regional projects and, as such, is required to be familiar with E&S risks and issues in new Investment and Advisory projects to the extent that these are understood by IFC at the time of CN clearance.
- 3.11. *ESG Regional Managers (ESGRM)* have accountability for E&S support to IFC Investment, Advisory and Upstream business processing in the region, to support and guide the regional E&S team, and to liaise closely with relevant Investment and Advisory projects teams, CES and, as necessary, CAO. ESGRMs have overall accountability for the performance of their management units, management of personnel and resources, E&S risk management of projects in pipeline and Portfolio, including High-Risk Projects (HRP) and oversee implementation of the regional supervision plan. ESGRMs also have responsibility for project cycle clearances as described in the ESRP. The ESGRM reports to the RD.
- 3.12. *Regional Industry Leads (RIL)* are senior technical resources for E&S risk management for their defined sector and region. The RIL provide initial E&S screening and input to the Concept Notes (CN) of new mainstream Investment and Advisory Investment (CnC) projects and are available as needed to support LESSs in discussion with investment teams and in project troubleshooting. The RIL also provides E&S oversight of the mainstream investment portfolio for their sector and region: the RIL prepares the annual supervision plan for their sector and region, debriefs E&S specialists following RSA, reviews supervision records, and monitors overdue AMR and KG projects. The RIL may be assigned as a project LESS.
- 3.13. *Lead Environmental and Social Specialists (LESS)* are part of the Project Team and have the responsibility to review Clients' E&S risk identification and management processes in accordance with the Sustainability Framework, to identify corrective actions and develop E&S action plans that enable Clients to close gaps with the Performance Standards, and to advise the Project Team on E&S policy compliance and risk management throughout a project cycle, including potential E&S dealbreakers. The LESS is

appointed according to the expertise required to address the project's technical, sectoral and regional issues. The LESS may be supported by other team members when analytical support or complementary expertise is required¹, though the LESS remains the E&S point person and is responsible for related work product delivery.

- 3.14. *Regional Advisory Leads (REAL)* provide initial E&S screening and review E&S risk management throughout the project lifecycle of Mainstream and Upstream Advisory projects (except for PPP and global ESG knowledge product development projects). The REAL is also responsible for implementation of E&S-specific advisory support delivered by regional E&S teams within Mainstream and Upstream Advisory projects. The REAL may also act as LESS for an Advisory project.
- 3.15. *Regional CTA Anchors*: The CTA Anchor is an E&S technical resource assigned to act as the main contact point for E&S matters in each region's PPP and Transaction Advisory projects. The CTA Anchor screens new CTA projects for E&S risks, prepares the E&S text for the Concept Note and proposes the overall E&S risk level and E&S tiering. In consultation with the Environmental and Social Risk Officer CTA (ESRO-CTA), the CTA Anchor identifies early E&S risk deal-breakers, if any. For Transaction Advisory projects processed by the region, the Anchor clears the E&S considerations of the PCR in workflow.
- 3.16. *CES Director* is accountable for institutional compliance with E&S policies and standards and supports Regional and Senior Management's interactions with CAO. The CES Director serves as the corporate interface between IFC Operations, Senior Management and the Board on E&S issues.
- 3.17. *CES Risk Manager (CESRM)* is accountable for the delivery of the E&S risk management function. The CESRM provides oversight and quality assurance of IFC's E&S risk management; adherence to IFC's Sustainability Framework and this ESRP. The CESRM position is part of the CES Leadership team and reports to the CES Director.
- 3.18. *CES Chief E&S Specialist (CESCS)*, in coordination with the CESRM, provides technical guidance and support to CES E&S Risk Officers and regional E&S teams when specialized expertise is needed to support E&S work with Clients. The CESCS supports the development or update of this ESRP and other procedures and staff guidance that relate to E&S risk management and supports CES management in the monitoring of E&S key performance indicators (KPIs). The CESCS also has E&S project processing responsibilities for globally-processed projects. The CESCS position is part of the CES Leadership team and reports to the CES Director.
- 3.19. *CES Environmental and Social Risk Officers (ESRO)* provide a "second line of defense" to maintain vigilance in the application of the ESRP and compliance with the Sustainability Framework. The ESRO reviews and clears key E&S deliverables throughout the new business project cycle and, in Portfolio, advises and provides clearances for all projects meeting the HRP criteria or that require E&S Material Waivers. Through this review function, ESROs drive global consistency, quality and harmonization of approaches across and within regions on the E&S aspects of project processing. ESROs and other thematic specialists in CES Global Support unit also provide advice to regional E&S Specialists on sector-specific as well as cross-cutting technical and thematic issues across all Operations.
- 3.20. *CES Environmental and Social Risk Officer CTA (ESRO-CTA)* reviews all projects at Concept Review, confirming E&S risk level and tiering, and, for projects tagged HRP, reviews E&S risk management throughout the project lifecycle, of Public-Private Partnerships (PPP) and other Transaction Advisory projects implemented by CTA Department.

ESRP in the Transaction Cycle

- 3.21. The ESRP are aligned with established IFC project cycles. Investment new business (DI and FI), supervision and portfolio, follow the procedures on investment operations (new business) and procedures on investment operations (portfolio and supervision), while Advisory Services and Upstream transactions follow relevant procedures on upstream and advisory project governance.

¹ References to the LESS assume that the LESS has taken appropriate input from other experts and that the LESS is presenting the views of the team.

- 3.22. The following sections describe the ESRP for Investment Operations: New Business (Section IV); Investment Operations: Portfolio and Supervision (Section V); Advisory and Upstream Operations (Section VI); Responding to Significant Adverse E&S Events (Section VII); Escalation of Decision (Section VIII); and Document and Record Keeping (Section IX).
- 3.23. One key aspect of the E&S review is a differentiated approach to E&S risk management, which is discussed in the following sections. Separate approaches are defined for investment, upstream and advisory respectively. The general approach is that all projects are screened for E&S risk by regional E&S teams. CES reviews this screening at Concept Review and confirms projects' E&S risk tier and processing level (for Investment projects). After Concept Review, E&S oversight and clearance functions are assigned differently between E&S regional teams and CES according to the E&S processing level for investment projects and according to the E&S risk level for advisory projects, as described in detail in Section IV (Investment Operations, New Business), Section V (Investment Operations, Portfolio and Supervision) and Section VI (Advisory and Upstream Operations).
- 3.24. *Investment Projects: New Business and Portfolio Processing – Regional and Global Considerations.* IFC regional teams are responsible for processing, including E&S processing, the transactions within their region. Some IFC projects however are assigned to “Global” or “World Region” rather than to one of the IFC investment regions. Some of these projects have a well-defined regional “center of gravity,” usually defined by the project or sponsor location(s). In such cases, E&S processing is undertaken by the regional E&S team that houses this “center of gravity.” Some projects, however, are truly global in nature. These projects likely have a Part I country sponsor, with project activities and use of funds in multiple or undefined IFC investment regions. In these cases, E&S project processing is undertaken by a project processing team housed within CES Global Support unit (CESES). The CESCS takes a processing role equivalent to that of the RIL in receipt of the PDS-Concept from the IO and initial project screening, and that of the ESGRM in assigning the project LESS, reviewing documents prepared by the E&S project team, providing E&S clearance, and for certain portfolio operations.
- 3.25. Throughout these Procedures, roles allocated to the RIL or ESGRM for regionally processed projects should be understood to apply to the CESCS for globally processed projects.
- 3.26. *Advisory Projects – Regional and Global Considerations:* Upstream and Advisory activities are delivered across multiple departments, broadly falling under the following categories: Industry Departments (CBD, CDF, FIG, INR, MAS) and Non-Industry Departments (e.g., CTA, CGE, CFI, CGR, CER), in addition to Country Advisory and Economics Units (CAE). Most of the Advisory Projects are regionally processed. There are, however, projects which are global (e.g., umbrella projects). In these cases, the technical reviewer role is undertaken by the CES E&S Advisory Lead within CESES. The CESCS takes a processing role equivalent to that of the ESGRM in providing E&S clearance of Concept Notes when financing rights are contemplated and clearance of the Implementation Plan.

IV. Investment Operations: New Business

4.1. The ESRP for New Business in Investment Operations, including Direct Investments (DI) and Financial Intermediaries (FI) describe the following phases of the project cycle:

- a. Concept Stage;
- b. Appraisal, Investment Review and Disclosure;
- c. Board Approval and Commitment; and
- d. First Disbursement.

4.2. **Figure 1 IFC Investment Operations Project Cycle** presents the project cycle along which the ESRP is implemented.

Figure 1. IFC Investment Operations Project Cycle



Concept Stage

4.3. The Concept stage is the period between transaction origination and signing of the Mandate Letter or equivalent document. During the Concept stage, a potential project is given an early “go” or “no go” through the Project Data Sheet (PDS) Concept workflow, and as necessary, at a Concept Review Meeting (CRM) and/or Tier III Project Committee (T3PC) decision.

4.4. The objective of the E&S review is to contribute E&S considerations to the go or no-go decision which is recorded in the PDS-Concept workflow.

4.5. Key E&S Deliverables:

- a. E&S considerations for the PDS-Concept including provisional E&S category and E&S Tiering (RIL) and assignment of E&S Processing Level and PDS-Concept progression (with or without escalation) through the Accountability and Decision-Making (ADM) workflow (ESRO);
- b. Participation and input to CRM, as needed (RIL for non-HRP/ESRO for HRP);
- c. E&S text for the Monthly Operations Report (RIL); and
- d. E&S input to Mandate Letter, if variations from standard language are required (LESS, or RIL if LESS not assigned).

- 4.6. *PDS-Concept*. Each PDS-Concept has a section on E&S considerations. For regionally-mapped projects, the Regional Industry Lead (RIL) receives the PDS-Concept from the IO and develops the section on E&S considerations, with support from others in the regional E&S teams, as needed (e.g., analysts, thematic specialists). The E&S considerations are based on a preliminary review of the proposed project, including its financial structure, and an E&S risk screening. The PDS-Concept includes provisional assignment of E&S category² and E&S Tiering; discussion of key E&S risks and impacts that may be appraised; and, where relevant, results of E&S risk screening (e.g., contextual, Gender-Based Violence (GBV), biodiversity, climate or other E&S risks); information gaps; expected challenges, resource needs, and any non-standard processing requirements. The RIL also reviews the Client's ongoing and historical E&S performance (including the Environmental and Social Risk Rating (ESRR)³ history for Clients with active or previous projects) and any potential deal breakers. The RIL identifies repeat investments or projects with existing Clients with an active CAO case or a supervision ESRR of 3 "Partly Unsatisfactory" or ESRR 4 "Unsatisfactory" performance, or investments with former Clients that were exited in the last three (3) years with an active CAO case or an ESRR 3 or 4 at exit. If at this stage an Advisory Service related to the project is identified, it should also be described. In preparing the PDS-Concept, the RIL may consult ESROs, other thematic specialists in CES and in the regional teams to enhance global consistency in treatment of cross-cutting or sectoral or thematic issues.
- 4.7. For "Global" or "World Region" projects, the CESCS receives the PDS-Concept from the IO. The CESCS considers whether a "regional center of gravity" as described in Paragraph 3.24 can be identified, in which case the CESCS refers the PDS-Concept to the relevant RIL for further processing, advising the IO of this. For "truly global" projects, the CESCS continues project processing as described in Paragraphs 3.25 and 4.6.
- 4.8. The ESRO reviews and progresses the E&S considerations in the PDS-Concept as an ADM Reviewer⁴ within five (5) business days. The ESRO discusses potential E&S dealbreakers, confirms the provisional E&S categorization and the E&S Tiering and assigns the E&S Processing Level⁵; guides and confirms the scope of due diligence; designates high-risk projects for new business (HRP_(A))⁶; confirms or adds relevant E&S requirements and if needed, recommends escalation to the T3PC. The ESRO enters comments in the ADM workflow.
- 4.9. Projects that meet any of the following criteria are considered HRP_(A):
- Category A or Category FI-1 investment projects;
 - Repeat investments with Clients that have an active CAO case or a supervision ESRR of 3 or 4;
 - Projects with former Clients with an active CAO case or where the supervision ESRR at exit was 3 or 4 in the last three (3) years; and/or
 - On an exceptional basis, selected projects of other E&S categories with complex and/or novel E&S issues or financial structures where the need for additional oversight is demonstrated.
- 4.10. If a CRM is called, the RIL participates, providing supplemental E&S information where needed, and recommends an E&S "go"/"no-go" decision. The ESRO participates in the CRM for HRP. Any disagreements that cannot be resolved are escalated as per Section VIII (Escalation of Decision). For projects classified as Tier III on account of E&S issues, the Chair can request participation of CES Director to opine on E&S matters.
- 4.11. *Repeat Investments – Less than Satisfactory Supervision ESRR*. Proposed repeat investments with existing Clients that have a supervision ESRR 3 or 4 or proposed repeat investments with former Clients that were exited in the last three (3) years with a supervision ESRR 3 or 4 at exit are classified as E&S Tier III transactions and require T3PC approval to seek a mandate. In the case of existing Clients with ESRR 3 or 4, the LESS prepares a roadmap for upgrading the Client's ESRR. In the case of a former Client where the ESRR at exit was 3 or 4, the RIL reviews documentation, explains the rationale for the at-exit ESRR, describes how if at all the Client's E&S management has evolved since exit (based on new information available if any), why enhanced

² See IFC Policy on Environmental and Social Sustainability, January 1, 2012, para. 40, Environmental and Social Categorization.

³ See Section V, paragraph 5.46 'Environmental and Social Risk Rating' for a definition of ESRR.

⁴ The Accountability and Decision-Making (ADM) framework, as defined in the procedures on investment operations (new business).

⁵ E&S Processing Levels are assigned by the ESRO.

⁶ In Section IV New Business, any references to the high-risk project in New Business acronym is HRP_(A) or simply HRP. Note that all HRPs are L3Ps. In Section V Portfolio and Supervision, any references to the high-risk project in Portfolio acronym is HRP_(P) or HRP-P.

E&S outcomes should be expected for the proposed new investment and any investment conditionality that will be required to bring about such enhancement. The LESS' or RIL's documentation supporting the repeat transaction is sent to IO copying the ESRO.

- 4.12. *Repeat Investments – Active CAO Cases:* For proposed projects with existing or former Clients that have an active CAO case, the LESS (for existing Clients) or the RIL (for former Clients) prepares analysis, which is sent to IO copying the ESRO, that describes how the Client has responded to any shortcomings identified by CAO, remaining stakeholder harm (if any), with a recommendation (or not) to proceed with the project.
- 4.13. *Policy Exceptions.* Projects with proposed E&S policy exceptions are classified as E&S Tier III and require T3PC approval. In such cases, the RIL prepares a justification for recommendation to accept (or not) the E&S policy exception, which is cleared through the ESRO to T3PC.
- 4.14. *Monthly Operations Report (MOR).* The MOR updates the Board on the investment pipeline. The RIL provides input to the MOR on E&S risks in New Business, based on the PDS-Concept language and any revisions arising from CRM or T3PC.
- 4.15. *Assigning the LESS.* When the project is approved for Appraisal, the ESGRM designates the LESS. The LESS is appointed based on the technical, sectoral, regional and project management expertise necessary to successfully complete the project. The LESS is the E&S Specialist responsible for E&S aspects of project appraisal, subsequent processing and portfolio supervision. When additional or complementary skills are needed, the ESGRM assigns a Support E&S Specialist (SESS), thematic specialists, external consultants and/or analysts, to support the LESS' project delivery.
- 4.16. *Mandate Letter.* In the event of any deviations from standard E&S mandate language, the LESS (or the RIL if the LESS is not yet assigned) with support as needed from the ESRO verifies the E&S input to the Mandate Letter drafted by the IO. The Mandate Letter includes a brief description of the E&S review that IFC will undertake, IFC's Disclosure obligations relating to the transaction, E&S support that may be offered and any applicable E&S due diligence fees, as well as the links to the IFC Sustainability Framework.

Appraisal, Investment Review and Disclosure

- 4.17. The Appraisal, Investment Review and Disclosure stages serve to identify the E&S impacts and risks of the project, determine the specific mitigations and conditions for investment, inform the public via disclosure and discuss the potential costs and benefits of the project prior to presenting to the Board for approval.

Appraisal

- 4.18. The Appraisal stage involves the due diligence of a project and its Client/sponsor to inform the investment decision. The environmental and social due diligence (ESDD) is led by the LESS as an integral part of the investment due diligence. The effort required is commensurate with the level of risk of the project.
- 4.19. The objective of the E&S Appraisal review is to identify potential E&S impacts and risks (including reputational) of the project and existing and proposed mitigation measures, any remaining gaps with respect to IFC requirements, and E&S actions and conditions for investment. At the conclusion of the E&S Appraisal IFC understands the client's existing E&S risk management capacity and performance which inform the outputs of the Appraisal stage, the E&S Review Summary (ESRS) for E&S Category A or B Direct Investments, or the E&S input to the Summary of Investment Information (SII) for E&S Category FI-1/2/3 and C investments, an E&S Action Plan (ESAP) (if any), and E&S input to the proposed investment's Term Sheet. The ESRS (or SII) and ESAP (if any) are all disclosed during IFC's project cycle.
- 4.20. Key E&S Deliverables:
 - a. Appraisal plan, including proposed timeline, documented with pre-Appraisal check-in meeting minutes for HRP (LESS);
 - b. Information request to Clients and records of Client E&S documentation (LESS);

- c. E&S project documentation in internal systems (LESS);
 - d. For HRP, post-Appraisal briefing meeting minutes (LESS);
 - e. ESRS/SII and ESAP entered in the internal systems (LESS) and clearance (ESGRM for L1Ps, ESRO for other projects);
 - f. Estimated ESAP implementation costs (LESS); and
 - g. If applicable, ICP/BCS determination visit plan/FPIC verification plan (LESS) and clearance (ESRO).
- 4.21. The ESDD is managed by the LESS, who is responsible for key deliverables. The LESS is supported, as needed, by a SESS and other thematic specialists or external consultants. The ESRO is available to provides advice and guidance on E&S technical issues for all projects across regions and clears the key E&S documents for L2Ps and L3Ps (HRP).
- 4.22. *Prepare for Appraisal.* The LESS plans the Appraisal approach and drafts an Appraisal plan, drawing on the key E&S risks identified at the Concept stage. The Appraisal plan defines the scope of the Appraisal, which is informed by the nature of the IFC funding instrument, the scope and scale of the project and all significant potential E&S impacts and risks which are predicted at that stage, considering inherent sector risks, and contextual risks identified by the contextual risk screening undertaken at the Concept stage. The Appraisal plan takes due account of any relevant special processing instructions for certain investment types. Where IFC funding instruments may evolve (e.g. a C-loan may be converted to equity, a guarantee when called is analogous (in E&S treatment) to a loan) appraisal scope considers IFC's possible ultimate exposure. Appraisal considers a combination of desk-based background research and document review, in-person or virtual site visits, meetings and interviews with key stakeholders. The Appraisal plan also includes a proposed timeline for completion of key E&S tasks and deliverables for the transaction. The LESS shares the Appraisal plan with the ESGRM and with the ESRO (for L2Ps and L3Ps) and convenes a pre-appraisal check-in meeting with the IO and ESRO (mandatory for HRPs and recommended for L2Ps), or as instructed by the ESGRM (for L1Ps and L2Ps), to agree on the Appraisal plan. The LESS prepares the E&S Questionnaire and requests the relevant E&S documents from the Client, appropriate to the nature and scale of the project and commensurate with the level of environmental and social risks and/or impacts.
- 4.23. *Desk Appraisal.* The LESS reviews relevant E&S documents both provided by the Client, and publicly available, concerning existing and proposed projects under consideration for investment, as well as any additional information related to the area of influence and contextual risks. For FI projects, this includes relevant information to analyze the level of E&S risk in the FI Client's existing operations⁷ pipeline and business strategy, as well as exposure to higher-risk projects⁸. The LESS assesses whether the documents reviewed are sufficient to provide an adequate understanding of project risk and identifies remaining information gaps to be closed during the later stages of appraisal.
- 4.24. *Virtual Appraisal.* Appraisal completely by virtual Appraisal techniques is applicable for projects with existing Clients who have been recently supervised (therefore IFC has recent information on the Client's E&S management practices and project E&S risks), for low E&S risk projects, as agreed in the Appraisal plan. The virtual Appraisal may include any one or all of the following:
- a. Teleconference or videoconference meetings with sponsors and in some cases other stakeholders;
 - b. Virtual visits of facilities (i.e., real-time videos, use of drones, etc.); and/or
 - c. Proxy or surrogate on-site visits by qualified local consultants who can support the IFC Appraisal process with a site visit.
- 4.25. *Site Appraisal Visit.* In cases where desk and virtual Appraisal are not sufficient to provide IFC with an adequate understanding of E&S risks and the client's mitigation measures, IFC undertakes a site Appraisal visit⁹. The LESS conducts the site Appraisal visit to identify gaps, if any, between the Client's existing and proposed mitigation of E&S risks and impacts and measures necessary to bring about the project's alignment with IFC's applicable E&S requirements. During the site Appraisal visit, as applicable, the LESS conducts an on-site inspection of key project components and area of influence; interviews with Client management, staff and contractors; meets with relevant stakeholders, including representatives of affected communities; and endeavors to understand the capacity, maturity and reliability of the Client's E&S management system (ESMS) and stakeholder

⁷ The review of the Client's existing operations informs IFC's understanding of the Client's E&S risk appetite and E&S risk management processes only.

⁸ As defined in the IFC Guidance Note on Financial Intermediaries, September 29, 2023.

⁹ Most proposed direct investments require a site appraisal visit. For proposed FI investments, the ESGRM determines the need for a site appraisal visit, in consultation with the ESRO for L2Ps and L3Ps.

engagement process. The LESS evaluates the effectiveness of the Client's ESMS in managing and documenting E&S performance and outcomes, including current and future project compliance with IFC's PSs or other requirements, and the Client's capacity and willingness to manage E&S risks in line with PS requirements. The site Appraisal visit also helps gather information on the Client's understanding of contextual risks. The ESRO is invited to join the site Appraisal visit of an HRP and discusses participation with the CESRM who can waive the ESRO's participation in the visit.

- 4.26. The LESS conducts a close-out meeting with the Client to discuss preliminary findings, proposed actions to close gaps to achieve compliance with IFC's E&S requirements (i.e., indicative ESAP) and project milestones. The LESS requests the Client to prepare cost estimates for ESAP implementation and to share these with IFC and seeks the Client's agreement to provide adequate human and financial resources to implement the ESAP.
- 4.27. There may be cases where access for project Appraisal is limited, though an adequate understanding of E&S risk does require a site Appraisal visit. In these cases, Appraisal can commence through desk and virtual appraisal techniques. Non-HRP processing can proceed to the stage immediately before Commitment and HRPs can proceed to Investment Review Meeting and disclosure on the basis of virtual Appraisal only. For both HRPs and non-HRP cases, the site Appraisal visit with updating, as required, of IFC's E&S disclosure, ESAP and investment terms is normally required before Commitment. Exceptions to this guidance may be requested by the investment team on a case-by-case basis and may be agreed by the CESRM who considers additional risk to IFC that results from lack of site Appraisal visit. The decision may be subject to Escalation provisions (see Section VIII).
- 4.28. *Post-Appraisal Activities.* The LESS completes the internal project records in the applicable internal system, archiving relevant Client E&S documents and sharing the information with the ESGRM and ESRO (L2Ps and L3Ps) for their review. These records document detailed information collected for internal use during the appraisal review, describe the scope and nature of the E&S appraisal, and include appraisal (field) observations and information received, for example through stakeholder meetings, data analysis, comments and links to critical other documents. Formally filed documents form an essential record of appraisal activity and findings and as such are referred to by the ESGRM and ESRO as key evidence in support of the ESRS commentary, and as a means to support IFC's definition of E&S client requirements in the ESAP and investment terms. Post-Appraisal activities include assigning an ESRR at Appraisal¹⁰. For HRPs, the LESS convenes a post-Appraisal briefing with the ESRO, keeping the ESGRM informed, to discuss key findings and which guides the completion of the Appraisal. Where appraisal of a L1P or a L2P identifies previously unanticipated E&S risks, the LESS informs the ESGRM and ESRO (for L2Ps) and a post-Appraisal briefing is recommended. The LESS documents the post-Appraisal briefing meeting minutes. If the post-Appraisal briefing meeting confirms that the project is not high risk, the ESRO removes (or "un-tags") the HRP designation. For non-HRPs, if following Appraisal, the LESS concludes that E&S risk assigned at concept is not correct (e.g. an indicative L1P should be assessed a higher E&S processing level, or a project previously considered L1P or L2P is in fact an HRP), the LESS discusses with the ESGRM and, as needed, informs the ESRO who reassigns the processing level and, as needed, the categorization. Where applicable, the LESS proposes to the ESRO the process to evaluate the project's Informed Consultation and Participation (ICP), Broad Community Support (BCS) and Free, Prior and Informed Consent (FPIC). The ESRO reviews and clears the ICP/BCS determination visit plan and FPIC verification plan, as applicable.
- 4.29. During Appraisal of proposed projects, whether greenfield or existing, and where their scope and assets are known, the LESS is responsible to identify and review available information, records, and documentation related to the assessment of environmental and social risks and impacts. The review includes an assessment of whether the Client has identified and documented potential adverse impacts and risks for each stage of the project life cycle to which financing applies. In performing the review, the LESS refers to the Guidance Note of Performance Standard 1, which specifies the risks and impacts identification process (paragraph GN15–GN21) and discusses the methods and assessment tools for risks and impacts identification (paragraphs GN22–GN30)¹¹. Supplemental studies that need to be implemented to close relevant gaps identified are either completed before Board Meeting or included in the ESAP. If at any time during Appraisal the LESS considers that the

¹⁰ The ESRR at Appraisal is an initial rating of the Client's E&S performance assigned at Appraisal as a single stand-alone reference mark, which is later compared to the Client's ESRR during Supervision to assess progress in the Client's E&S risk management. ESRR assigned at Appraisal is not a trigger for HRP designation.

¹¹ Guidance Notes do not establish policy but explain the requirements of the Performance Standards.

risks and impacts identification process is insufficient to make a determination, before the Board Meeting, of whether the proposed investment can meet the requirements of the Performance Standards within a reasonable period of time, the LESS informs the ESGRM and the ESRO. As required, the matter is escalated, as described in paragraph 4.35.

- 4.30. *Preparation of the ESRS.* For E&S Category A or B projects, the LESS prepares the Environmental and Social Review Summary (ESRS) for Disclosure. The ESRS includes, as applicable:
 - a. Reference to the Performance Standards and any applicable grievance mechanisms including the CAO;
 - b. The E&S categorization of the project and IFC's rationale for this categorization;
 - c. Description of the main environmental and social risks and impacts of the project;
 - d. Key measures identified to mitigate the risks and impacts, including any E&S management plans prepared by or on behalf of the client;
 - e. Supplemental actions that will need to be implemented to undertake the project in a manner consistent with the Performance Standards: such supplemental measures are documented in the Environmental and Social Action Plan (ESAP);
 - f. Where greater than 25,000 metric tons CO₂ equivalent per year, the expected greenhouse gas emissions of the project;
 - g. Electronic copies or web links, where available, to any relevant Environmental and Social Impact Assessment (ESIA) documents prepared by or on behalf of the Client; and
 - h. For those projects where the determination of BCS or the verification of the FPIC of indigenous peoples is required, a description of the status of those processes.
- 4.31. *Preparation of the E&S Input to the SII.* For Financial Intermediary and E&S Category C Direct Investment projects, the LESS prepares the E&S input to the SII. This includes:
 - a. The E&S categorization of the investment and IFC's rationale for this categorization;
 - b. A description of the main E&S risks and impacts associated with the proposed investment and a summary of the Client's ESMS; and
 - c. Key measures (if any) to strengthen the ESMS.
- 4.32. *Preparation of the E&S Action Plan (ESAP).* Where required, the LESS prepares the ESAP. This is a time-bound summary of additional measures to be implemented by the Client, beyond the Client's existing or previously planned management practices necessary to cause the project to be designed, built, operated and/or decommissioned in a manner meeting IFC's E&S requirements. ESAP items can include a mixture of investments in tangible assets (such as constructing a wastewater treatment plant), strengthening of E&S management systems, capacity and organization or elaboration of additional studies. In developing the ESAP, the LESS considers whether the Client's time and resources as represented to IFC are adequate to support ESAP implementation. In making this determination, the LESS, supported as needed by the IO, reviews the Client's estimate of the capital and operational costs to implement the ESAP, and confirms that the Client's financial plan, if necessary following revision, can accommodate these costs. Based on the significance of the gap to be addressed in relation to the significance of the risk to be mitigated, the LESS considers and proposes whether there are Conditions of Commitment that the Client must meet for IFC to sign the legal agreement or conditions required from the Client before a disbursement occurs (Condition of First Disbursement or any subsequent disbursement). ESAPs may be required for both Direct and Financial Intermediary investments.
- 4.33. For HRPs, the LESS engages with the ESRO early in the ESRS development process, following the agreed-upon timeline (see paragraph 4.23). The LESS submits the draft ESRS/SII and ESAP of L2Ps and L3Ps to the ESRO after they have undergone quality control within the regional E&S team and have been reviewed by the ESGRM. As needed, the LESS addresses the ESRO's comments with guidance from the ESGRM and resubmits for clearance. For HRPs, the ESRO reviews the relevant Client E&S documents for disclosure, as applicable, and clears the ESRS/SII and ESAP for the LESS to share with the transaction team and subsequently with the Client. The ESRS/SII (and ESAP if needed) for L1Ps are cleared by the ESGRM.
- 4.34. Once the ESRS/SII and ESAP are cleared, the LESS shares the draft ESRS/SII, ESAP and relevant client E&S documents for disclosure with the IO and subsequently with the Client (directly or through the IO), and requests written confirmation of factual accuracy, initial indication that the Client will implement the ESAP items described, and approval to publish on the Disclosure Portal (see paragraphs 4.46 – 4.49 "Disclosure").

- 4.35. In the event of unresolved disagreements between the Client, Investment staff, the investment E&S team or, CES on Client requirements, the discussion is escalated as per the process described in Section VIII Escalation of Decision.
- 4.36. *Broad Community Support (BCS) Determination*¹². For HRP, where BCS is applicable, the ESRO confirms the need to determine BCS. The LESS prepares a BCS determination visit plan, which is reviewed and cleared by the ESRO.
- 4.37. *Free, Prior and Informed Consent (FPIC)*¹³ *Verification*. For HRP, where a proposed business activity may trigger the requirement for FPIC of Indigenous Peoples, the ESRO confirms, upon review of the Appraisal conducted to date by the LESS, whether FPIC verification is required. When FPIC is required the LESS prepares an FPIC verification plan, which is reviewed and cleared by the ESRO.

Investment Review Meeting

- 4.38. The Investment Review stage is where the team prepares and presents the Decision Book to Management either at an Investment Review Meeting (IRM) or by circulation.
- 4.39. Key E&S Deliverables:
 - a. E&S considerations in Decision Book (LESS, with ESRO clearance for HRP and ESGRM clearance for other projects);
 - b. E&S input to Term Sheet (LESS, with ESRO clearance for HRP and ESGRM clearance for other projects).
- 4.40. *Prepare Decision Book*. The LESS prepares the E&S considerations for the Decision Book based on the Appraisal findings, and after confirmation that the scope of E&S appraisal is aligned with the proposed investment as described in the Decision Book. These considerations include the identification of key E&S risks and relevant mitigation measures, the client's estimate of capital and operational cost necessary to implement the ESAP and if warranted, the discussion of contextual risk related to the project. The Decision Book also includes the ESRS/SII and ESAP as an annex if they are available, as well as the E&S conditions for the Term Sheet or other E&S conditionality. Where the need for supplementary studies has been identified in order to complete a satisfactory E&S risk assessment, the timeline for completion of these studies is developed and agreed with the client taking project milestones into account and is described in the Decision Book. E&S considerations are cleared by the ESRO for HRPs (L3Ps) and by the ESGRM for all other projects.
- 4.41. For HRPs, the ESRO reviews and provides succinct questions and comments ahead of the meeting to allow the team (i.e., IO, LESS) to prepare for IRM.
- 4.42. *IRM and Management Approval*. The LESS participates as part of the Project Team in the IRM to present the key E&S findings about the project, proposed risk mitigation measures and Term Sheet E&S input. The LESS answers questions at IRM and subsequently clears the IRM minutes and PDS-IR. The LESS will consult with the ESGRM in case of significant discrepancies between the minuted IRM decision and E&S considerations outlined in the Decision Book.
- 4.43. For all L2Ps and L3Ps, the ESRO is invited to participate as a member of the Review Committee, seeking to verify that the team and committee fully understand the E&S risks and any eventual policy challenges in the transaction, and their operational/ financial/ reputational implications. The CESRM decides on the attendance by the ESRO. When the ESRO attends IRM, it is good practice for the LESS and ESRO to consult ahead of the IRM. For HRPs, the ESRO provides input on conditions that need to be met to proceed to Board, Commitment and ultimately Disbursement. For L3P, the ESRO reviews and clears the E&S section of IRM minutes within three (3) business days. For all other projects, LESS clears. If the IRM approves the transaction with ESRO objections, the ESRO escalates the decision per Escalation Procedure (Section VIII).
- 4.44. *IRM by Circulation*. For Investment Review by circulation, the LESS responds to E&S questions in the workflow. For IRM by circulation of HRPs, the ESRO clears the E&S Considerations section of the PDS-IR within three (3) business days. For all other projects, LESS clears.

¹² Sustainability Policy, paragraph 30.

¹³ Sustainability Policy, paragraph 31.

- 4.45. *Final input to Investment Terms.* After IRM, the investment terms are finalized with the Client, usually by the IO. The LESS may support communication of E&S IR follow-up requirements to the Client. In coordination with the investment team, if directed by IRM, the LESS revises draft disclosure documents (ESRS/SII and ESAP) and requests authorization to disclose. Upon receipt of the Client's authorization to disclose the most current documents, the LESS starts the Disclosure workflow.

Disclosure

- 4.46. The ESRS/SII, ESAP where applicable and supporting Client documents, i.e., relevant Environmental and Social Impact Assessment (ESIA) documents prepared by or on behalf of the Client), are publicly disclosed in advance of the consideration of the investment for approval by the IFC Board of Directors or IFC Management (in case of Delegated Authority) and in accordance with the Access to Information Policy (AIP)¹⁴. Disclosure is completed on the IFC Project Information Portal¹⁵. AIP in Paragraph 33 defines requirements to be met before the SII (and ESRS/ESAP) may be published. For Category A projects, disclosure must occur no less than 60 days prior to consideration of the investment for approval by IFC's Board of Directors (or other relevant internal authority). For other projects, the minimum disclosure period is 30 days. In exceptional circumstances defined by AIP these minimum disclosure periods may be reduced, in which case IFC's Board must be informed by the IO.
- 4.47. Key E&S Deliverables:
- a. ESRS/SII and ESAP Disclosure clearance (ESGRM for L1Ps/ESRO for other projects); and
 - b. Client authorization for Disclosure (LESS).
- 4.48. The LESS starts the Disclosure workflow upon receipt of the Client's Disclosure authorization (see paragraph 4.34). For L1Ps, the ESGRM clears the E&S Disclosure in the workflow. For all other projects the ESRO clears the E&S Disclosure in the workflow. The LESS verifies that the disclosure is complete and correct.
- 4.49. If IFC's E&S disclosure attracts comments from stakeholders or others, the LESS together with the IO, considers the comments, discusses comments with the ESGRM (or the ESRO for HRP), and as needed with the Client, to determine the need if any to supplement the ESDD, including through possible communication with the commenter. If this supplemental ESDD results in material changes to the ESRS/SII or ESAP, then the disclosure period (see paragraph 4.46) is restarted.

Board Approval and Commitment

Board Approval

- 4.50. The Board Approval stage is where the Project Team seeks approval from the Board of Directors to enter into a legally binding agreement with the Client.
- 4.51. The E&S review objective is to inform the Board of Directors of the key E&S risks and issues of the project, mitigation measures and residual risk, if any, as well as the Client's capacity and commitment to meet the E&S performance requirements.
- 4.52. Key E&S Deliverables:
- a. E&S considerations for Board Paper (LESS) cleared (ESGRM);
 - b. If applicable, BCS/FPIC determination memo and matrix (LESS) cleared (ESRO); and
 - c. If BCS/FPIC applies, ESRS/SII and ESAP update and re-disclosure (LESS) cleared (ESRO).
- 4.53. E&S Section of Board Paper. If a period exceeding one year has passed between E&S Disclosure and the anticipated Board date, the LESS will coordinate with the IO and the Client to get an update on the project status and as may be necessary update and redisclose the ESRS/SII and ESAP, following the processes described in paragraphs 4.46 – 4.49 "Disclosure."

¹⁴ IFC's Access to Information Policy (January 1, 2012)

¹⁵ See <https://disclosures.ifc.org/>

- 4.54. The LESS prepares the E&S considerations for the Board Paper in line with the corporate guidance, including: setting out the project E&S risk category and rationale; summary of significant E&S risks and issues identified during appraisal, including contextual risk and policy-exceptions if any; the Client's existing ESMS if any; identified gaps with PSs and their significance to the client's achievement of Performance Standards objectives; any E&S risk management implementation risks identified at appraisal which could result in lack of compliance with Performance Standards; any pending supplemental studies, their completion timeline and underlying risks these studies will address; the Client's capacity and commitment; and the Client's historical E&S performance in case of repeat transactions. For corporate transactions, the E&S considerations for the Board Paper also include the general purpose of investment and Appraisal scope. For FI transactions, the E&S considerations also include indicative details for sub-projects in the FI portfolio and pipeline and their potential E&S risks. Before preparing E&S considerations, the LESS again conducts a desk review for E&S adverse incidents or reputational risk flags and confirms that the ESDD is aligned with the scope of the proposed investment and use of proceeds.
- 4.55. The E&S considerations for the Board Paper are cleared within three (3) business days by the ESGRM for all projects, copying the ESRO for HRP. Before clearance the ESGRM confirms the LESS' conclusion that the ESDD adequately addresses, in both scope and depth of review, the proposed investment's use of proceeds as described in the Board Paper and the consistency with the disclosure documents. The ESGRM copies the CESCS, CESRM and, as required the CES Director on sensitive project matters, especially related to policy interpretation, and advises on Board Paper discussion. The CES Director clears the Board Paper discussion of policy waiver or other precedent-setting issues, when these are present, prior to the Regional Vice President (RVP) clearance.
- 4.56. BCS and FPIC. In projects where BCS determination/FPIC verification is required, the LESS conducts the BCS determination/FPIC verification visit. The ESGRM and CESRM jointly determine who attends the BCS determination visit. The LESS prepares a BCS/FPIC assessment memo and matrix for review and clearance by the ESRO. The ESRO reviews and clears the BCS/FPIC memo and matrix for CES Director and Regional Director sign-off prior to Board Approval. Once cleared, the LESS includes the BCS/FPIC conclusions in the E&S considerations for the Board Paper. The LESS revises the ESRS to maintain alignment with the BCS/FPIC memo and includes the conclusion. The ESRO clears the redisclosure of the ESRS with the BCS/FPIC conclusion.
- 4.57. Executive Directors Meetings. After the Board Paper is circulated, the LESS may receive questions from the Executive Directors (ED) or their advisors on E&S issues related to the project. The LESS prepares responses to ED questions and consults with the ESRO and ESGRM for guidance on sectoral context and regional consistency respectively. The LESS attends ED meetings as needed and may be supported by the ESGRM in these ED meetings. For HRP, the LESS notifies the ESRO of written ED questions and responses. For written ED questions, seeking an independent policy view, the ESRO prepares the answers in consultation with the CESPS Manager and the CESRM and shares with the LESS. The ESRO attends ED meetings if requested by the IO or ESGRM.
- 4.58. Board Pre-Meeting. The LESS attends the preparatory meeting convened by the Board Meeting Chair and answers questions or clarifications on the E&S scope and other aspects arising during the Board Paper circulation period. For HRP, the ESRO attends the meeting, if requested by the IO or the ESGRM, and responds to questions by the chair specifically seeking an independent policy view.
- 4.59. Board Meeting. The LESS attends the Board Meeting and supports with appropriate responses to questions related to E&S matters. The ESRO attends for HRP as guided at the pre-meeting and responds to questions by EDs specifically seeking an independent policy view.
- 4.60. As needed, the CESRM or CESCS participates in pre-Board and Board Meetings to answer questions on policy interpretation.

Commitment

- 4.61. Commitment is the stage when the relationship between IFC and the Client is formalized through the signing of one or more legal agreements, which can be of various types according to the structure of the transaction.
- 4.62. The objective of the E&S review is to determine if any Conditions of Commitment (COC) need to be addressed and to define any specific E&S requirements to be added to the legal agreement to enhance E&S risk management.

- 4.63. Key E&S Deliverables:
- Confirmation of E&S covenants and Conditions of Disbursement (COD) in the legal agreement(s) (LESS) and clearance (LESS for non-HRP/ ESRO for HRP);
 - Indicative Supervision plan for HRP (LESS, cleared by ESRO); and
 - Definition of E&S clearances required for future disbursements (LESS / ESRO for HRP).
- 4.64. E&S Input to the Legal Agreement. The LESS reviews the E&S content of the legal agreement(s) and provides input to ensure that the terms agreed at IR and in the Term Sheet are included in the draft legal agreement(s). If needed, the LESS advises the Project Lawyer and IO if any revisions are required. For non-HRPs, the LESS consults with the ESGRM who clears the E&S language in the legal agreement. For HRPs, the ESRO, with support from the CES Lawyer as needed, reviews and clears the E&S clauses in the final agreement(s) prior to Commitment. The LESS, or ESRO for HRPs, can include specific covenants and reporting requirements not covered in the standard clauses.
- 4.65. Conditions of Commitment (COC) are conditions that the Client must meet for IFC to sign the legal agreement. Where COC are not met, the agreement is not signed. COC are reserved for correction of the highest risk factors, without correction of which the investment would not be acceptable to IFC. The LESS documents the COC agreed with the Client in the system and confirms all COCs are met prior to Commitment or consults with the ESGRM if any high-risk factors remain unaddressed. The ESGRM supports the LESS in discussion of any high-risk factors that are left unaddressed with the IO. If these high-risk factor(s) would require E&S Material Waiver¹⁶ to permit disbursement should they remain unaddressed, the LESS informs the ESRO who in turn informs the CESRM and CES Director. The LESS, with ESGRM and CES support, seeks to resolve with the Investment Department per Escalation of Decision (Section VIII). In such cases, prior to Commitment, the ESRO confirms the absence of any other elevated risk factors.
- 4.66. Conditions of Disbursement (CODs) are conditions required from the Client before a Disbursement occurs. CODs are used to expedite Client attention to important high-risk factors. The LESS, with assistance from the Project Lawyer, includes E&S CODs in the legal agreement(s) and documents them in the tracking system. For HRPs, the ESRO reviews the CODs and may request additions. The LESS defines the need for future E&S workflow clearances for Disbursements, which the ESRO clears for HRPs.
- 4.67. Definition of E&S Clearances: At commitment, in clearing the PDS-Commitment the LESS, or ESRO for HRP, defines E&S clearances (if any) that may be needed at the time of the First and of Subsequent disbursements.
- 4.68. Affirmative (or Positive) and Negative Covenants: are actions that the legal agreement requires that the Client shall or shall not undertake. The need to supplement the standard covenants to enhance E&S risk mitigation becomes apparent during ESDD.
- 4.69. HRP – Indicative Supervision Planning: It is the nature of HRPs that E&S outcomes are enhanced through early and continuous management of E&S risks. This risk management effort is most effective if it continues directly from the intense E&S input during Appraisal especially when IFC has indicated its commitment to fund the investment activity. In preparation for Commitment, the LESS develops an indicative supervision plan for the HRP to cover the first two years after commitment. This plan includes necessary Client interaction to confirm compliance with First and Subsequent disbursement conditions and to monitor ESAP implementation status, confirms to the Client IFC's expectations for the Client's management of E&S risks, and provides necessary guidance for the Client in its E&S management approaches. After review, the ESRO clears the LESS' indicative supervision plan.

First Disbursement

- 4.70. The Disbursement stage involves releasing funds to the Client in accordance with the terms stipulated in the investment agreement. For IFC to disburse funds to Clients, all CODs must be met and documented or formally waived.

¹⁶ E&S Material waivers are defined in Section II, Selected Definitions.

- 4.71. The objective of the E&S review is to confirm that the Client meets E&S CODs and that funds can be disbursed. If the Client does not meet a COD, the objective is to either agree to waive the COD (either temporarily or permanently) or document an E&S non-clearance of Disbursement until the COD is met.
- 4.72. Key E&S Deliverables:
- a. Summary of E&S COD and ESAP compliance status (LESS) and clearance of PDS-Disbursement (LESS for non-HRP/ESRO for HRP);
 - b. Updated ESAP and Disclosure of updated ESAP, if needed (LESS);
 - c. Justification of E&S waivers (LESS) and clearance (ESRO E&S Material Waivers/ESGRM for other waivers), if applicable; and
 - d. Document hold (or non-clearance) of PDS-Disbursement, if applicable.
- 4.73. Upon notification by the IO of the Client Disbursement request, where E&S clearances are required (see paragraph 4.68) the LESS provides a summary of COD, Affirmative and Negative Covenant and/or ESAP compliance status, as established in the legal agreement, evidenced and recorded. The LESS, in coordination with the IO, contacts the Client to obtain an E&S status update, which must provide sufficient detail to enable the LESS to evaluate compliance with all the E&S conditions. The LESS typically verifies compliance status through a combination of document review, telephone or videoconference conversation with the Client or site visit, depending on project circumstances. The LESS documents the Client's compliance status with E&S conditions and determines if any material issues may affect Disbursement. For HRPs, the ESRO, with support from CES Lawyer as needed, reviews and clears (or not) the PDS-Disbursement workflow within five (5) business days of receipt of the LESS's analysis, which includes confirmation of compliance with the E&S conditions in the legal agreement and supporting Client documentation. For all other projects, the LESS clears (or not) E&S COD in the PDS-Disbursement workflow.
- 4.74. If there are incomplete or overdue E&S COD, ESAP tasks and/or covenant breaches, the LESS informs the IO, ESGRM and ESRO (for HRP). If the IO proposes to proceed with the Disbursement, a request to waive the relevant requirement is prepared and submitted by the Client. The LESS reviews the waiver request and, if in agreement, prepares the E&S justification¹⁷ to support the waiver request.
- 4.75. For E&S Material Waiver requests, the ESRO reviews the waiver justification and clears the waiver and PDS-Disbursement, if in agreement. If COD are not met and Disbursement is not cleared, the ESRO consults the CESRM. If consultation confirms the "not cleared" decision, the ESRO informs the LESS, IO and the ESGRM. This decision may be referred to the Escalation of Decision process (Section VIII).
- 4.76. For all other waiver requests, the ESGRM reviews the waiver justification and clears the waiver and PDS-Disbursement, if in agreement. Otherwise, the ESGRM informs the IO that the E&S team will not support Disbursement until the COD is met and seeks to work with the IO and client to resolve the matter. This decision may be referred to the Escalation of Decision process (Section VIII).
- 4.77. The LESS updates the record in the system based on the review of COD/ESAP/Covenant compliance and updates the ESAP Disclosure, if needed. The LESS also documents any agreed waivers, including ESGRM or ESRO clearances.

V. Investment Operations: Portfolio And Supervision

- 5.1. The ESRP for Portfolio and Supervision in Investment Operations describes the activities after First Disbursement through closing of the project. This section is divided into:
- a. *Supervision activities* describing the E&S activities around planning, conducting and documenting ongoing Supervision oversight of Client E&S performance; and
 - b. *Portfolio operations* describing the E&S input to Client management decisions.

¹⁷ See paragraphs 5.75 to 5.79.

Supervision Activities

- 5.2. E&S Supervision is an essential part of Portfolio risk management throughout the life of a project and relationship with a Client. The objectives of the E&S Supervision at the Client level are to:
- a. Assess the status of investment compliance with E&S requirements of the investment contract (including the ESAP, COD, Negative and Affirmative Covenants and reporting requirements);
 - b. Review the ongoing level of E&S risk, including contextual risk;
 - c. Review the Client's management of known E&S risks and identification and management of emerging E&S issues, including as required agreement on corrective actions that supplement the ESAP; and
 - d. Identify opportunities for improvement and good practices that could be applied to the project under supervision or similar projects.
- 5.3. Regular E&S Supervision enables prompt and informed E&S input to Client management decisions during the life of the investment, such as clearing Subsequent Disbursements or waivers, as needed, or considering Client eligibility for a repeat transaction. In addition, it enables enhanced Client oversight of HRP and timely guidance for Clients to undertake appropriate actions to manage evolving E&S risks.
- 5.4. Portfolio activities have a differentiated E&S oversight process depending on the level of risk and informed by Environmental and Social Risk Rating (ESRR). Portfolio projects with high E&S risk are labeled as High-Risk Projects in Portfolio (HRP_(p)), which triggers additional oversight and clearance by the ESRO. The specific criteria that define HRP_(p) are described in paragraph 5.14.
- 5.5. The following activities are conducted to deliver Client-level Supervision objectives. Each activity is described in subsequent paragraphs:
- a. Annual Supervision Monitoring Planning;
 - b. High-Risk Projects in Portfolio (HRP_(p)) oversight;
 - c. Recordable Supervision Activity, including as needed the ESAP completion status update, which can include a combination of:
 - I. Annual Monitoring Report / Annual Environmental Performance Report review;
 - II. Site Supervision Visit
 - III. Virtual Supervision;
 - d. Environmental and Social Risk Rating evaluation;
 - e. Updating the Client Supervision record in the internal system, including ESAP status;
 - f. Supervision Disclosure Updates;
 - g. Expanded Project Supervision Report (XPSR); and
 - h. Joint Ventures between regional E&S teams and CES.
- 5.6. At the level of IFC's Investment Portfolio, Supervision processes include the identification of systematic risks and mitigants through sectoral and regional Portfolio reviews, including enhanced oversight of a Portfolio subset of HRP_(p).
- 5.7. The following activities are conducted to deliver Portfolio-level Supervision objectives. Each activity is described in subsequent paragraphs:
- a. Regional and Sectoral Portfolio Reviews; and
 - b. Audits and Analysis.

CLIENT-LEVEL SUPERVISION

Annual Supervision Monitoring Plan

- 5.8. The annual Supervision Monitoring Plan supports ongoing Portfolio oversight through aggregating reviews of Client-level compliance with E&S requirements in the legal agreements, as well as documenting any changes in E&S risk levels and performance through the ESRR.
- 5.9. Key E&S Deliverables:
 - a. Supervision Monitoring Plan (RIL) and clearance (ESGRM for regional plans, ESRO for HRP_(p)).
- 5.10. The Supervision Monitoring Plan is prepared following a risk-based approach that guides the type of Supervision activity and level of effort for each Client. Projects and assets with a high level of risk or complexity are prioritized.
- 5.11. Towards the end of each financial year, based on the risk-based criteria defined by CES management, the RILs (for regionally supervised projects) and the CESCS (for globally managed projects) prepare draft annual Supervision Monitoring Plans for the following financial year. Where a Client has multiple investment projects, or multiple assets within a single project, the annual Supervision Monitoring Plan covers a representative number of projects or assets of the Client, with priority given to high E&S risk assets within the Client's portfolio. For the purposes of supervision planning, IFC co-investments alongside funds in which IFC is also invested should normally be treated as fund sub-projects rather than supervised as discrete direct investments.
- 5.12. The ESGRM confirms that the Regional Supervision Monitoring plan provides adequate regional portfolio coverage and E&S risk management, and monitors progress in plan delivery over the financial year. The ESRO reviews and provides input to the Regional Supervision Monitoring Plan and confirms that the plan adequately addresses regional HRP_(p).
- 5.13. Throughout the financial year the ESGRM monitors the number of SSVs conducted, compares this with the planned rate of supervision and makes such adjustments to regional E&S specialist activities as may be necessary to deliver the Regional Supervision Monitoring Plan and regional supervision KPIs.

High-Risk Projects in Portfolio

- 5.14. HRP_(p) are a subset of projects in the committed Portfolio that present one or more of the following criteria:
 - a. Projects tagged as HRP during New Business processing that have not since been "untagged";
 - b. Projects with a supervision ESRR 4;
 - c. Projects with a supervision ESRR 3 for three or more consecutive years;
 - d. Projects with directly received material E&S-related complaints or ongoing adverse attention or campaigns by external stakeholders that pose reputational risk;
 - e. Projects with an eligible, open CAO complaint; and/or
 - f. Projects in CSO with material E&S concerns.
- 5.15. Oversight of HRP_(p) follows a differentiated approach from that of the non-HRP_(p) in the following respects:
 - a. Key E&S decisions recommended by the LESS (such as clearance of disbursements or waivers) require review and clearance by the ESRO;
 - b. HRP_(p) undergo more frequent supervision activities than non-HRP_(p). Supervision includes at least annual SSV with additional oversight as warranted by E&S risk; and
 - c. E&S status of selected (highest risk) HRP_(p) is updated quarterly and reported to senior management and regional and industry departments' managements.
- 5.16. Key E&S Deliverables:
 - a. HRP_(p) – Supervision Plan for the first two years (LESS, cleared by ESRO)

b. HRP_(p) list (ESRO).

- 5.17. HRP_(p) – Supervision Planning: Immediately after first disbursement the LESS reviews the indicative 2-year supervision plan for the HRP that was prepared at Commitment and updates it as may be required. The ESRO reviews and approves or suggests revisions to the plan and shares it with the RIL for incorporation into regional supervision plan.
- 5.18. Maintenance of the HRP_(p) List. Projects enter the HRP_(p) list when they meet any of the criteria for HRP_(p) specified above (see paragraph 5.14). Once a project becomes an HRP_(p), the LESS provides and/or updates information in the system and discusses it with the RIL and ESRO. Projects are removed from the HRP_(p) list when the original criteria(on) for inclusion are/is no longer applicable. The LESS proposes the HRP_(p) removal to the ESRO. The ESRO reviews and approves (or not) removing the project from the HRP_(p) list.
- 5.19. Reporting of HRP_(p). Refer to Section “Regional and Sectoral Portfolio Reviews,” paragraph 5.62.

Recordable Supervision Activity

- 5.20. A Recordable Supervision Activity (RSA) is defined as an E&S Supervision activity that reviews a Client’s E&S performance and creates a new E&S Supervision record in the system, including a recalculated ESRR.
- 5.21. The objective of RSA is to evaluate and document the following information for decision-making:
- a. Implementation and effectiveness of the Client’s ESMS;
 - b. Compliance with applicable legal agreement requirements, including PS compliance (where applicable);
 - c. Status of ESAP;
 - d. When applicable, completion of remedial actions arising from previous RSA;
 - e. When applicable, the post-Board implementation of the ICP process;
 - f. When applicable, the effectiveness of the Client’s grievance mechanism and ongoing community engagement; and
 - g. The recalculated ESRR based on the review.
- 5.22. Key E&S Deliverables: RSA, whether undertaken by AMR / AEPR review, site supervision visit or virtual supervision always includes the following deliverables:
- a. A complete and updated supervision record in IFC’s internal systems (LESS), to include:
 - I. Summary of E&S Supervision findings. This summary, through system automation, also serves as the E&S input to the Client Supervision Report;
 - II. ESRR update;
 - III. ESAP completion status¹⁸ review and update;
 - IV. ESAP supervision disclosure (as described in paragraphs 5.51 to 5.53);
 - b. The RIL’s review and discussion with the LESS of RSA findings and their documentation;
 - c. Closure of project-level Knowledge Gap; and
 - d. E&S feedback to IO and Client, including any recommended or corrective actions (LESS).
- 5.23. The LESS¹⁹ conducts the RSA completing one or more of the following: reviewing the AMR/AEPR and, where applicable, the ESAP status report; conducting the SSV or Virtual Supervision;²⁰ identifying any changes to contextual risk and conducting Client documentation reviews, meetings and interviews with the Client or stakeholders. For FI Clients, the LESS focuses the review on the FI Client’s ESMS implementation and effectiveness, including relevant samples of ESDD reports and sub-project site visits.
- 5.24. Action Plan Update. If the ESAP or other legal agreement requirements are not met by the agreed timeline, the LESS, assisted by the IO engages the client to seek to understand reasons for implementation delay. Having confirmed that implementation of the item in question remains appropriate, the LESS (assisted by the IO) agrees to a revised implementation timeline and

¹⁸ This includes any revisions of ESAP items due dates which supervision shows to be required.

¹⁹ The LESS may call upon other E&S Specialists, as needed following consultation with the ESGRM.

²⁰ For definitions see paragraph 5.30 for AMR/AEPR; paragraph 5.34 for SSV and paragraph 5.41 for Virtual Supervision.

seeks to support the Client's efforts to fulfill the requirements²¹. Delay in implementation of the ESAP or other E&S requirements of the legal agreement will usually²² result in an ESRR not more favorable than 3 "Partly Unsatisfactory." The LESS updates the ESAP with the newly agreed completion date.

- 5.25. E&S Supervision Findings Summary: The LESS documents key RSA findings and conclusions and completes the rationale for the ESRR assignment in the internal systems. This text is a complete, self-contained executive summary of the Client's E&S status, and is also used to populate the E&S input to the Client Supervision Report (CSR). The RIL reviews supervision records and discusses the findings and conclusions with the LESS.
- 5.26. For all projects, the LESS provides feedback on RSA conclusions to the IO for onwards communication to the client.
- 5.27. For projects with ESRR 3 or 4, the LESS proposes and discusses with the RIL and the IO measures to improve the Client's E&S performance. The LESS documents the outcome of these discussions in the internal system. The IO communicates the necessary improvement measures to the Client for implementation.
- 5.28. Where RSA concludes that immediate client action is needed to enhance management of E&S risks that have already caused or could cause "Severe" or "Critical" adverse events to occur, then the LESS immediately informs the Regional or Global Industry Manager (for global projects), RIL, ESGRM and ESRO.
- 5.29. Knowledge Gap (KG): The RIL monitors the KG of the regional portfolio, and coordinates with project LESSs to take necessary action to minimize KG and maintain it within corporate thresholds. Such actions could include follow-up with clients to request delivery of overdue AMR/AEPRs or revisions to the regional Supervision Monitoring Program.

Annual Monitoring Report or Annual Environmental Performance Report Review

- 5.30. The Client's legal agreement usually²³ requires that the Client submits to IFC an Annual Monitoring Report (AMR) for E&S Category A or B Direct Investments, or an Annual Environmental Performance Report (AEPR) for FI Clients. The AMR/AEPR describes the project's E&S performance and the main E&S events in the reporting year. The AMR/AEPR contains the information required by the LESS to complete the RSA. AMR/AEPRs are tailored to each project, and an AMR/AEPR template is included as an annex to the legal agreement. A key component of the AMR/AEPR is the ESAP status report.
- 5.31. Key E&S Deliverables:
 - a. Key deliverables from AMR/AEPR review are identical to those arising from RSA listed in paragraph 5.22.
 - b. Additional guidance to AMR/AEPR review and additional deliverables unique to this form of RSA are listed and discussed below.
 - c. Waiver of AMR/AEPR submittal (ESGRM for non-HRP/ESRO for HRP_(P)).
- 5.32. AMR/AEPR Workflow. The LESS is automatically alerted by the internal IFC system, i.e., Reporting Requirement Tracker (RRT), when a Client's AMR/AEPR and, where applicable, ESAP status report are received and uploaded to IFC systems. The LESS reviews the AMR/AEPR and, where applicable, ESAP status report within 30 days of receipt. If the AMR/AEPR (or the ESAP status report) is incomplete, the LESS requests additional information from the Client. Upon review of the complete AMR/AEPR (and ESAP status, where applicable), the LESS completes the RSA record as described in paragraphs 5.20 to 5.29. The RIL monitors completion of AMR/AEPR reviews by the LESS.
- 5.33. AMR/AEPR Waivers. When a Client's operations are temporarily halted and no E&S data exist on which to report, IFC may waive the Client's contractual obligation to deliver an AMR/AEPR. In deciding whether to support a waiver the LESS considers whether the Client's inability to report is indicative of elevated E&S risk and documents the justification for the AMR/AEPR waiver in a

²¹ This may be achieved by providing advice on E&S technical issues, explanation of the requirement (which may not previously have been fully understood) providing examples or advising implementation service providers.

²² Certain ESAP items may be tied to project implementation scheduling. If project implementation is delayed and the associated ESAP item is also delayed but there is no resulting increase in E&S risk, ESRR may not be downgraded.

²³ Certain investment structures may preclude client delivery of an AMR/AEPR.

PDS-Change, following discussion with the RIL. The ESRO reviews and clears the waiver request for HRP_(p). The ESGRM reviews and clears for all other projects.

Site Supervision Visits

- 5.34. A Site Supervision Visit (SSV) is a visit undertaken by the LESS²⁴ to Client facilities or project areas of influence. The objectives of the SSV are to verify on site the Client's implementation of E&S requirements; review the current level of E&S risk, including contextual risk; gather information from other stakeholders and provide on-the-ground advice to the Client on E&S issues.
- 5.35. Key E&S Deliverables:
- a. Key deliverables from Site Supervision Visits are identical to those arising from RSA listed in paragraph 5.22.
 - b. Additional guidance to Site Supervision Visit reporting and additional deliverables unique to this form of RSA are listed and discussed below.
 - c. Approval to waive SSV (ESGRM for non-HRP/ESRO for HRP_(p)).
- 5.36. Frequency of the SSV. The frequency of the SSV is based on several risk-based factors such as project E&S categorization, CAO or other complaints, change in contextual risk and ESRR history. Annually, CES defines a SSV target that informs the Regional Supervision Plans, which are uploaded in the system through the Supervision Visit Planner (SVP)²⁵. The ESRO reviews and recommends the HRP_(p) for SSV. For HRP_(p), SSVs are usually conducted at least annually: additional RSA may be undertaken according to E&S risk. Following approval of the Regional Supervision Plan by ESGRM and ESRO (for HRP_(p)), any variation to the SSV frequency is proposed by the LESS and cleared by the ESGRM and ESRO (for HRP_(p)). Projects with minimal or no adverse environmental or social risks and/or impacts, such as Category C or FI-3, do not usually require SSV. Other projects are normally visited on a triennial basis, with priority on projects with knowledge gaps.
- 5.37. Planning and Completing the SSV. The LESS, in consultation with the RIL, prepares the scope of the SSV and coordinates with the IO and the Client in advance of the proposed SSV. The scope of the SSV is commensurate with the E&S risks, ESRR, outstanding issues and project circumstances. The SSV may include interviews and discussions with the Client and other project stakeholders, document review, and physical inspection of selected facilities and/or activities. At the end of the SSV, the LESS conducts a close-out meeting with the Client to present findings, conclusions and recommendations for corrective actions. If ESAP items need to be modified or added, the LESS shares information with the Client at the time of the SSV and seeks in-principle agreement.
- 5.38. The LESS completes the Supervision record for the SSV as described in paragraphs 5.20 to 5.29. The SSV is recorded in the Supervision Visit Planner (SVP).
- 5.39. SSV Waivers. Under certain circumstances, it may not be feasible to conduct an SSV for projects as planned. Such circumstances may include disputes between IFC and the Client; or an unacceptable level of risk for staff security, safety or health. In such cases, the LESS requests the SSV waiver by starting the PDS-Change E&S Supervision waiver workflow, which is cleared by the ESRO for HRP_(p) and the ESGRM for all other projects.
- 5.40. Independent E&S Consultant for Multiple Lenders. When several lenders jointly finance large or complex projects, they often agree to hire an Independent E&S Consultant (IESC) to conduct independent supervision activities on their behalf. These consultants regularly visit the project to supervise the E&S performance, review ESAP implementation progress, identify other notable E&S events such as developments in contextual risk, then report back to the lenders. Thereafter, lenders follow up on any outstanding issues with the Client as necessary. The LESS uses the IESC supervision information as input to assess the status of the E&S requirements. The LESS remains accountable for the RSA and all decision-making on the basis of Supervision activities implemented.

²⁴ The ESGRM may designate other E&S Specialists, as needed.

²⁵ SVP is an application to propose, update and monitor the delivery of the E&S Annual Site Supervision Plan.

Virtual Supervision

- 5.41. A virtual Supervision may include conference calls; videoconferences; review of new E&S information; and/or virtual visit to facilities (e.g., using real-time videos, drones, etc.).
- 5.42. Key E&S Deliverables:
- a. Key deliverables from virtual supervision review are identical to those arising from RSA described in paragraph 5.22, except that the virtual nature of supervision is documented.
- 5.43. Applicability of Virtual Supervision. Virtual Supervision is applied under the following scenarios: (i) low or medium risk projects that do not require a SSV but where any combination of virtual Supervision tools is needed to supplement the AMR/AEPR review, or (ii) medium or high-risk projects where virtual Supervision may supplement a SSV (e.g., virtual Supervision in between SSV) or temporarily replace a SSV (e.g., due to travel restrictions), with virtual supervision frequency varied associated to the level of risk of the project.
- 5.44. The LESS prepares for the virtual Supervision in coordination with the IO and Client. The LESS conducts the virtual Supervision as planned. The LESS enters the virtual supervision record as described in paragraphs 5.20 to 5.29.

Environmental and Social Risk Rating Evaluation

- 5.45. The Environmental and Social Risk Rating (ESRR) is an internal index that provides an indication of the level of E&S risk associated with IFC projects. The ESRR is initially calculated at Appraisal as a point of reference for the Client. During Supervision, the ESRR is updated with every RSA, and allows for an analysis of the Client's trend in E&S performance. The ESRR calculation is based on Client performance against a number of evaluation criteria related to E&S risk management. ESRR has a four-point scale:
- a. ESRR 1 "Excellent"
 - b. ESRR 2 "Satisfactory"
 - c. ESRR 3 "Partly Unsatisfactory"
 - d. ESRR 4 "Unsatisfactory"
- 5.46. Key E&S Deliverables:
- a. ESRR update (LESS); and
 - b. ESRR upgrade recommendation (LESS) and clearance (ESRO / ESGRM for Regional Oversight²⁶ projects).
- 5.47. Calculating the ESRR. During Portfolio Supervision, the LESS calculates the indicative ESRR based on the information gathered during Supervision activities. Once the calculation is done, the LESS compares the indicative ESRR with his/her subjective judgment of the Client's E&S risk. The LESS either confirms, or overrides (with explanation) the indicative ESRR. The resulting confirmed ESRR is documented as part of the RSA.
- 5.48. Upgrading ESRR Scores. When the indicative ESRR calculation results in a better rating than before (e.g., from an ESRR 3 to 2), an ESRR upgrade may be warranted. The LESS validates the ESRR calculation (as described in paragraph 5.47) and reviews other Supervision information in considering an ESRR upgrade. Except for Regional Oversight projects, the LESS, in consultation with the RIL, sends an ESRR upgrade memo (offline) to the ESRO to recommend the proposed ESRR upgrade from 4 or 3. The memo includes ESAP completion status, overall E&S performance and any other material information that supports the upgrade. The ESRO considers the upgrade request, taking a holistic view of the E&S performance of the Client, and either agrees to clear the upgrade or defines specific actions to be completed by the Client in order to be considered for ESRR upgrade. ESRR upgrade recommendations for Regional Oversight projects are considered and cleared by the ESGRM, following consultation with the RIL. ESRR upgrades from 2 to 1 are made by the LESS without further clearances.

²⁶ A Regional Oversight project is a portfolio project that is not an HRP_(P).

- 5.49. Downgrading ESRR Scores. When the indicative ESRR calculation results in an inferior rating than before (e.g., from ESRR 2 to 3), an ESRR downgrade may be warranted. The LESS reviews the ESRR calculation and other Supervision information to propose the ESRR downgrade. The ESGRM clears the downgrade.
- 5.50. The ESGRM or the CESRM may formally request the LESS to downgrade an ESRR, in the event of new information relating to material E&S risks that may arise from the RSA process, or other sources. Within ten business days of receipt of a downgrade request, the LESS downgrades the ESRR (documenting the decision in the system) or discusses the downgrade request with the relevant manager, documenting the downgrade request, discussion and its outcome and adjusting or maintaining ESRR as agreed.

Supervision Disclosure Updates

- 5.51. The Access to Information Policy (AIP) mandates publication of updates of the ESAP implementation status (i.e. documentation of ESAP items as Pending, Completed, Rescheduled or Cancelled) once the project is in Portfolio, and for E&S Category A and B projects, publication of any ESAs reviewed by IFC and certain third-party monitoring reports.
- 5.52. Key E&S Deliverables:
- a. ESAP update on the IFC website (LESS)
 - b. Publication on the IFC website of material new Client E&S information (LESS)
- 5.53. As part of the Supervision activities, when the LESS updates the status of any ESAP item, based on an RSA, the LESS rediscloses the ESAP on the IFC Disclosure website. This is done through an internal system. Once the status of all ESAP items has been updated and submitted, the information is published on the IFC Disclosure Website.²⁷
- 5.54. Otherwise Updating Disclosure during Supervision. The LESS updates E&S Disclosure if material new E&S information becomes available during the life of the investment.

Expanded Project Supervision Report

- 5.55. The Expanded Project Supervision Report (XPSR) is an annual exercise of project evaluation based on a random sample of IFC projects five years after approval. The XPSR considers IFC and project performance, anticipated and actual project outcomes, and a review of the quality of IFC Appraisal and Supervision work. It is based on self-evaluation by the Project Team that drafts the XPSR and sampling and validation done by the Independent Evaluation Group (IEG). The objective of the XPSR is to examine anticipated vs. actual outcomes and suggest lessons learned for continuous improvement.
- 5.56. Key E&S Deliverables:
- a. E&S section of the XPSR (LESS), reviewed by ESRO.
- 5.57. The LESS completes the XPSR E&S Review report annex and summaries, using the E&S Review reporting template provided by IEG and in accordance with the schedule established for the review. The RIL monitors completion of E&S input to XPSRs by the LESSs. The E&S content of the XPSR, once completed, is reviewed by the ESRO and ESRO's comments are addressed by the LESS who finalizes the E&S content.

Joint Venture Projects between Regional E&S Teams and CES

- 5.58. Joint Venture Projects (JVP) are a small and exceptionally high-risk subset of projects selected from HRP_(P), which are subject to intense joint supervision activity between regional E&S teams and CES with the intent to return the projects to compliance with IFC's E&S requirements. This subset includes projects that trigger three or more of the HRP_(P) criteria listed in paragraph 5.14.

²⁷ Visit <https://disclosures.ifc.org/>

- 5.59. Key E&S Deliverables:
- a. JVP Memorandum of Understanding (CES/Investment); and
 - b. E&S recovery or exit plan (CES/Investment).
- 5.60. In JVP, the ESRO actively becomes a member of the Project Team to complement the LESS and engage with the rest of the Portfolio team (IO, Legal, Credit, CSO, as appropriate).
- 5.61. A memorandum of understanding (MoU) to initiate a JVP is proposed by the ESRO, discussed with the CESRM, ESGRM and Industry Department managers and recommended to the CES Director and the Regional Director for approval and signing. The MoU clearly identifies the composition of the JVP team, a proposed timeline, budget allocation, Supervision activities²⁸ and any revisions to clearances. Typically, the MoU allows six to nine months for the team to develop, discuss with the Client and propose to Management either a recovery plan or an exit plan. The team's proposal is discussed, as needed, in a meeting with CESRM and ESGRM, and approved by the CES Director and the relevant Regional Director.

PORTFOLIO-LEVEL SUPERVISION

Regional and Sectoral Portfolio Reviews

- 5.62. Periodic regional and sectoral Portfolio Reviews are conducted by regional E&S teams to identify systematic E&S issues and discuss any specific or alternative courses of action to address such issues. Regional Portfolio Reviews inform the regions' senior management of E&S issues of importance that may require more attention and resources to drive improvement. Sectoral Portfolio Reviews are triggered by CES management and provide longer term thematic and cross-regional learnings and improvement.
- 5.63. Key E&S Deliverables:
- a. Summary presentation of HRP(P) Portfolio Review for Regional Vice President (ESGRM/ESRO);
 - b. E&S input to the Portfolio Risk Review Report (PRR) to the Board Audit Committee (CESCS/CESRM); and
 - c. Sectoral Portfolio Review Report (ESRO).
- 5.64. The ESGRM manages preparation of the regional Portfolio Reviews. For a subset of HRP_(P) that trigger two or more of the HRP_(P) criteria²⁹, the ESGRM, jointly with the ESRO, prepares a quarterly summary presentation to update the Regional Vice President (RVP) on the status of the projects. This presentation is discussed at a meeting jointly chaired by the RVP and VP, Risk and Finance (CRF VP).
- 5.65. The CESCS receives the portfolio information from the ESGRMs and, jointly with the CESRM, prepares the input to the quarterly PRR section on non-financial E&S risks that is submitted to the Board Audit Committee. The PRR includes a subset of HRP_(P), those that trigger two or more of the HRP_(P) criteria. The PRR is reviewed and cleared by the CES Director.
- 5.66. The ESRO prepares sectoral Portfolio Reviews from time to time, focusing on trends in the sector across regions, for presentation to the CES Director, CESCS and CESRM. The ESGRMs are invited to attend. Thematic conclusions are shared with ESGRMs, Regional Industry Managers or Global Portfolio Managers, Global Equity Head (GEH) and the Portfolio Department (CPM).

Audits and Analysis

- 5.67. As part of CES's function, quality control audits and thematic/regional analysis are performed by the department. The objectives of the audits and analysis are to evaluate the Supervision efforts conducted by the regional E&S teams and provide

²⁸ Supervision activities, including SSV, are conducted jointly by the LESS and ESRO.

²⁹ See paragraph 5.15 for a definition of HRP_(P) criteria.

additional guidance and feedback to improve IFC's Supervision approach to better manage E&S risks in IFC's Portfolio, providing complementary review to the regional E&S teams' own Portfolio Reviews.

- 5.68. Key E&S Deliverables:
- a. Schedule of audits/analysis (CESRM); and
 - b. Semi-annual audit/analysis report with findings and recommended action items (ESRO).
- 5.69. The CESRM develops an annual plan and informs the ESGRMs and the Industry Departments³⁰ of scheduled Portfolio Review audits, which are conducted at the Client or project level and of thematic/regional analysis. The CESRM assigns the audits/analyses to ESROs.
- 5.70. The assigned ESRO undertakes the Portfolio Review audits and/or thematic/regional analysis of HRP_(P), focusing on compliance with corporate policies, procedures and the Performance Standards, and documents the findings and recommended actions. The ESRO calls a kick-off meeting with the ESGRM and the RIL, keeps them informed on the status of the audits, and provides the RIL, the ESGRM and the Industry Department with a summary of findings and any recommended actions. As needed, the LESS follows up with the Client on the recommended actions and an agreed implementation schedule.
- 5.71. The CESRM reports the findings of audits and thematic/regional analyses to the CESDR.

Portfolio Operations

- 5.72. Portfolio Operations involve the approval processes triggered by events that occur over the life of an investment – beginning after the First Disbursement to final repayment (in the case of loan investments) or final equity sale (in the case of equity investments).
- 5.73. Portfolio Operations activities that may require an E&S risk management assessment include:
- a. Client Waiver of E&S Requirements;
 - b. Other Client Waiver Requests
 - c. Subsequent Disbursements;
 - d. Proposed repeat investments with ESRR 3 or 4 or active CAO cases;
 - e. Asset or Scope Changes; and
 - f. Investment exit.

Client Waiver for E&S Requirements

- 5.74. In the event that a Client fails to comply with E&S requirements defined in the legal agreement, it may become necessary to waive the compliance requirement, to permit certain investment operations to proceed. In waiver cases, the Client addresses the waiver request to the IO.
- 5.75. Key E&S Deliverables:
- a. Response to E&S waiver request (LESS) and clearance (ESRO for E&S Material Waivers / ESGRM for others) in PDS-Change.
- 5.76. When considering a request to waive E&S conditions, the LESS, assisted as necessary by the IO, prepares a response to the request, together with an internal analysis of such request, that details (i) reasons for the waiver request; (ii) an analysis of the impact the waiver has on the investment risk profile including E&S risks and impacts; (iii) whether the waiver if granted would amount to an E&S Material Waiver and why; (iv) proposed duration of the waiver (i.e., temporary or permanent waiver of the

³⁰ The Regional Industry Director (RID) for regional projects and Global Industry Director (GID) for globally mapped projects.

E&S conditions); (v) considerations of how to maintain leverage over the Client as may be needed; and (vi) any corrective action upon which the waiver request is conditioned, e.g., a Corrective Action Plan (CAP), or rescheduling of ESAP due dates.

- 5.77. Having considered all of the above, the ESGRM indicates, for E&S non-Material Waivers, whether the waiver request is cleared or declined. For waiver requests that are accepted, the LESS documents acceptance in the PDS-Change. For E&S Material Waivers the ESRO clears or declines the waiver request, and similarly, the LESS documents the decision.
- 5.78. If the ESGRM or ESRO declines a waiver request that is supported by IO, the decision may be escalated as described in Section VIII.

Other Client Waiver Requests

- 5.79. Upon receipt of a Client request for IFC to waive a non-E&S related matter, the IO discusses the matter with the LESS in order to establish the status of the Client's delivery against IFC's at-approval E&S requirements. If the Client exhibits shortcomings in E&S delivery (e.g. delayed ESAP completion), the IO and LESS discuss how the waiver request may be used to create leverage to promote enhanced Client E&S performance, and the IO adds the necessary conditions to the waiver agreement.

Subsequent Disbursements

- 5.80. Subsequent Disbursement procedures apply to a project that is not fully disbursed at First Disbursement. As with First Disbursement, the objective of the E&S review for Subsequent Disbursements is to confirm that the Client meets E&S COD and that funds can be disbursed. If the Client does not meet the COD, the objective is to either agree to waive the COD (either once only or permanently) or document an E&S non-clearance of disbursement until the COD is met.
- 5.81. Key E&S Deliverables:
- a. Summary of E&S COD and ESAP compliance status (LESS) and clearance of the PDS-Disbursement (LESS) for non-HRP/ESRO for HRP_(p);
 - b. Updated ESAP and disclosure of updated ESAP (LESS) (if applicable);
 - c. E&S input to Waiver Letter for Disbursement (LESS), or E&S waiver proposal input to PDS-Change Memo (LESS);
 - d. Waiver request clearance (ESRO for E&S Material Waivers/ESGRM for other waivers); and
 - e. Corrective Action Plan (if applicable) (LESS).
- 5.82. Upon notification by the IO of the Client Disbursement request, where E&S clearances are required (see paragraph 4.68), the LESS contacts the Client to obtain a sufficiently detailed E&S status update, to enable the LESS to evaluate compliance with all E&S conditions. The LESS in coordination with the IO verifies compliance status through a combination of document review, telephone or videoconference conversation with the Client, or site visit, depending on project and circumstances.
- 5.83. The LESS documents the Client's compliance status with E&S conditions and determines if any material issues may affect disbursement. For HRP_(p) and where COD are satisfied, the ESRO, with support from the Project Lawyer and CES Lawyer as needed, reviews and clears the PDS-Disbursement workflow. For all other projects where CODs are satisfied the LESS clears the PDS-Disbursement workflow.
- 5.84. If there are incomplete or overdue E&S COD, ESAP tasks or E&S covenant breaches, the LESS informs the IO, ESGRM and ESRO (for HRP_(p)). If the Client requests and the IO proposes to proceed with the Disbursement, the IO informs the Client that a request to waive the relevant requirement(s) is needed. When received from the Client, the LESS reviews the waiver request and, if in agreement, prepares the E&S justification to support the waiver request.
- 5.85. For E&S Material Waivers, the ESRO reviews the waiver justification and clears the waiver and PDS-Disbursement, if in agreement. If COD are not met and disbursement is not cleared, the ESRO consults the CESRM. If consultation confirms the "not cleared" decision, the ESRO informs the IO and the CESRM informs the CES Director, who may discuss a resolution with the Regional Director and Project Team, per Escalation of Decision (Section VIII).

- 5.86. For E&S non-Material Waivers, the ESGRM reviews the waiver justification and clears the waiver and PDS-Disbursement, if in agreement. Otherwise, the ESGRM informs the IO that the regional E&S team will not support Disbursement until the COD is met. If a resolution is not reached, the ESGRM briefs the CESRM and CES Director, who may discuss a resolution with the Regional Director and Project Team per Escalation of Decision (Section VIII).
- 5.87. The LESS updates the ESAP record based on the review of COD/ ESAP and updates the ESAP disclosure, if needed (refer to paragraphs 5.51 to 5.53).

Repeat Investments or Investments with Former Clients with ESRR 3 or 4 or Active CAO Case

- 5.88. See paragraphs 4.11 “Repeat Investments – Less than Satisfactory ESRR” and 4.12 – “Repeat Investments – Active CAO Cases.”

Asset or Scope Changes

- 5.89. Asset or scope changes may occur during the life of an investment in the Portfolio. These changes may increase IFC’s financial exposure to the Client and/or modify the E&S risk of the investment. Changes may result from an action or decision implemented unilaterally by the Client without seeking IFC’s prior agreement, in which case IFC may lack agency to influence the change. Alternatively, changes may result from an action or decision, initiated by either IFC or the Client, which is mutually agreed before the change is implemented. These two circumstances inform IFC’s E&S risk management approaches as described below.
- 5.90. Key E&S Deliverables:
- a. E&S input to the relevant memorandum and/or PDS-Change (LESS) and clearance (ESGRM or ESRO as described below).
- 5.91. *General Approach.* The IO notifies the LESS of the actual or proposed asset/scope change. The LESS then notifies the ESGRM and ESRO of the asset/scope change and provides the following considerations:
- a. The Client’s E&S performance to date, including ESAP implementation status and supervision ESRR;
 - b. How the asset/scope change may change E&S risks of the investment including any change of scope of application of the PSs, and whether:
 - I. The asset or scope change will expose IFC to investment in a new project phase or change the scope of the project with material increases in E&S risks and impacts;
 - II. The asset or scope change will expose IFC to investment in a new project initiated by the Client, different from the one which was initially appraised by IFC;
 - III. The asset or scope change will expose IFC to a project in which there is significant non-compliance with the E&S conditions agreed at signing;
 - c. The Client’s capacity to manage changed E&S risks in compliance with IFC’s E&S requirements, and willingness to strengthen E&S risk management capacity if necessary;
 - d. How changed risks may be mitigated if necessary through a CAP; and
 - e. Any E&S risks arising from the revised asset/scope of Client activities that, in the opinion of the LESS, cannot be managed in compliance with IFC’s requirements, and the consequential impacts that may result to affected communities and the environment and any reputational risk to IFC;

The LESS documents the review findings and conclusions and prepares E&S input to the necessary IFC memorandum.

- 5.92. *Unilateral Client Asset / Scope Changes, IFC Lacks Agency:* In such cases a Client changes its assets / business activities or the scope of investment to which IFC has exposure without IFC’s approval, and IFC lacks agency to influence these changes. The IO notifies the LESS of the asset / scope changes. The LESS then undertakes a review as described in paragraph 5.91. The review is likely to include Client discussions, which amount to Virtual Supervision (see paragraph 5.41) and/or a Site Supervision Visit (see paragraph 5.34). Upon completion of the review, the LESS drafts a memorandum that addresses issues listed in paragraph 5.91 and in particular concludes whether or not the Client is likely to be able to manage E&S risks in compliance with IFC’s requirements, additional commitments (if any) which should be sought from the Client in order to strengthen such compliance

and consequences of non-compliance. The memorandum is reviewed and cleared by the ESGRM or the ESRO (for HRP_(p)), then sent to the IO and Regional Industry Manager, the RIL (to inform supervision planning) and if an investment which was not high risk, following the change, may constitute a HRP_(p), to the ESRO. If it is concluded that the investment, following the change, is unlikely to comply with E&S requirements, the ESGRM sends the memorandum to the RD and RID and the Project is added to the projects discussed with the Vice President in the quarterly E&S portfolio review. The ESRO informs the CESRM who in turn briefs the CES Director.

- 5.93. *Negotiated Client Asset / Scope Changes, IFC Has Agency:* In these cases, proposed asset / scope changes are reviewed by the LESS and cleared by the ESRO before the changes are made, with the intent that any changes in the transaction structure are adequately identified and addressed as part of IFC's E&S risk management. In some circumstances, IFC may decline to participate in the asset / scope change. The most common examples of asset or scope changes in which IFC has agency are:
- a. For loan transactions:
 - I. B-Loan increase or new B-Loan
 - II. Loan conversion to equity (including through C-Loan conversion or Restructuring), and
 - III. Other forms of loan Restructuring.
 - b. For equity transactions:
 - I. Rights Issues
 - II. Warrants, and
 - III. Equity Conversion (for example from a subsidiary to a holding company).
- 5.94. *Procedure:* The approach used is that described in paragraph 5.91, except that the memorandum describes circumstances under which IFC may support the proposed asset / scope change or alternatively may recommend that IFC does not participate in the asset / scope change.
- 5.95. The ESRO reviews and clears the LESS input, which includes updated ESDD and Client conditions responsive to the changed scope of investment as needed and informs the ESGRM. The ESRO also reviews and clears E&S input to the memoranda / PDS-Change prepared to support asset/scope change processing.
- 5.96. *B-Loan Increase / New B-Loan.* The LESS completes E&S input in the B-Loan Memorandum which is cleared by the ESRO and which includes comments on:
- a. The project's E&S performance, material non-compliances if any, and ESRR;
 - b. Any change in project design (use of proceeds) that is enabled by the B-Loan increase; and
 - c. The need (if any) for a Corrective Action Plan (CAP).
- 5.97. *Loan Conversion to Equity.* The LESS undertakes the review as described at 5.91 and comments / completes E&S input accordingly in the Loan Conversion Memorandum.
- 5.98. If a new project ID# is created, the LESS categorizes the new project based on the new risk exposure and develops an ESRS/SII and ESAP as required. If the conversion is within the original project ID#, the LESS updates the ESRS/SII to reflect new exposure. The LESS' project categorization (where there is a new project ID#), and input to the Loan Conversion Memorandum are cleared by the ESRO who assigns a revised project level designation³¹. The new or updated ESRS/SII/ESAP are cleared by the ESGRM for L1Ps³² and by the ESRO for other projects.
- 5.99. *Other Loan Restructuring.* The LESS considers: (i) the Client's existing E&S management including ESRR and ESAP status; and (ii) the need if any to renegotiate the ESAP, and comments accordingly in the Restructuring Memorandum. The LESS's input to the Restructuring Memorandum is cleared by the ESRO. If a Board Paper is required, the LESS prepares the E&S Considerations section which is cleared by the ESGRM.

³¹ i.e., identification of the E&S Processing Level that results from the asset/scope change.

³² This reference to L1Ps means the processing level of the modified project.

- 5.100. *Rights Issues and Warrants Exercise.* The LESS advises the IO on the need to include E&S considerations in the Rights Issue Memorandum or Warrants Exercise Memorandum. E&S considerations are always to be included for projects with an ESRR of 3 or 4, or on projects where any of the conditions listed at 5.91 b. (i) to (iii) are present.
- 5.101. *Rights Issue / Warrants Exercise Memorandum.* E&S Considerations are informed by expected use of funds raised through the Rights Issue, and include comment on the E&S category, discussion of current E&S performance including ESRR, rationale for this ESRR and if the ESRR is 3 or 4, a discussion of prospects for improvement; material differences if any between current E&S risks and impacts and those expected at Appraisal; any other emerging issues that elevate the E&S risk profile of the project; proposed follow-up and/or any other needed E&S intervention with the Client. The ESRO reviews and clears the E&S Considerations language of the Rights Issue Memorandum or Warrants Exercise Memorandum. When a Board Paper is prepared, the E&S section follows standard guidance on the E&S considerations section (paragraph 4.54) and includes the E&S discussion in the Rights Issue/Warrants Exercise Memorandum.
- 5.102. *Other Equity Conversion.* IFC sometimes has an option to convert an equity position (for example in a special purpose vehicle or other company) into a different company (for example a holding company). Such conversions may broaden the scope of E&S risk and increase IFC's E&S risk exposure. The LESS considers the Client's existing E&S management system and organization and adequacy of the Client's E&S risk identification and management processes and (i) how the equity conversion may change IFC's E&S risks and (ii) how changed risks may be mitigated, if necessary, through a Corrective Action Plan, and comments accordingly in the PDS-Change. If a new project ID# is created, the LESS categorizes it based on the new risk exposure. If the conversion is within the original project ID#, the LESS updates the ESRS/SII to reflect new exposure. The LESS's input to the Loan Conversion Memorandum are cleared by the ESRO. The ESRS/SII revisions are cleared by the ESGRM for L1Ps and by the ESRO for other projects.

Investment Exit

- 5.103. **Key E&S Deliverables:**
- a. E&S Completion Report (LESS) and clearance (ESGRM);
 - b. E&S section of the Prepayment / Acceleration Memorandum (LESS); and
 - c. E&S section of the Equity Sales Approval Memorandum (ESAM) (LESS)
 - d. E&S section of Responsible Exit Analysis (LESS); and
 - e. E&S Clearance of Responsible Exit Analysis:
 - I. ESRR 3 or 4 at exit, no active CAO case: ESRO, then CES Director and RD.
 - II. Active CAO case at exit: ESRO, then CES Director and RD, then Regional VP³³ and Vice President, Risk and Finance (CRFVP).
 - III. Other projects: ESGRM.
- 5.104. **E&S Completion Report:** The LESS produces an E&S Completion Report for all projects at the time that the project leaves IFC's portfolio through an active or a passive exit (see paragraphs 5.105 and 5.106). The Completion Report documents the ESRR of the Client and the project ESAP implementation status at the time of exit and also describes (if applicable) any contentious relationships with affected communities and/or workers, CAO or direct complaints or ongoing CSO engagement. The Completion Report is cleared by the ESGRM or by the ESRO (for all exits of HRP(p) which are ESRR 3 or 4 at exit, with or without active CAO case) and filed in the project folder in accordance with Section IX of the ESRP.
- 5.105. **Responsible Exit:** The Responsible Exit Principles (the "Principles") apply to investments made by IFC as lender or investor of record and not to investments made by funds that are managed by IFC AMC. Furthermore, the Principles only apply at exit to those projects where IFC has agency over the exit, i.e., "active exits," that is to say exit (in whole or in part) by IFC from a loan or equity investment where IFC, proactively and voluntarily, decides to exit from such loan or equity investment or agrees to

³³ For Global projects this clearance is from the VP Industries rather than the Regional VP.

enable the client to exit in circumstances where such exit, at that time, would not have otherwise occurred without action by IFC (e.g., a material waiver by IFC).

- 5.106. All other exits are categorized as passive exits. IFC does not apply the Responsible Exit Principles to passive exits. Passive exits include any exit from an investment following repayment of a loan at maturity, equity investments where IFC does not make the decision to exit (e.g., where another investor exercises drag-along rights), any prepayments of loans where IFC does not have the right to consent to the loan prepayment or where the prepayment has been made without IFC's consent, and exits where IFC's approval is not needed for the exit or IFC cannot prevent the exit.
- 5.107. In the event IFC is only partially exiting a project, the IO, in coordination with the Project Team, analyzes the extent to which the partial exit changes IFC's leverage over the client. If the IO, in coordination with the Project Team, determines that post partial exit IFC will retain sufficient leverage to influence the client to address significant E&S issues, then the Principles are not required to be applied to such project at such time of partial exit. To the extent that the IO, in coordination with the Project Team, determines that IFC will not retain any leverage upon its partial exit, the Principles apply to such active (partial) exit.
- 5.108. In the event where a project is the object of an active CAO complaint, and an active exit is contemplated, the above paragraphs 5.104 to 5.106 also apply. Furthermore, the Project Team will continue coordinating communication to CAO in line with the CAO Policy in the case of an active exit taking place during an ongoing CAO process.
- 5.109. The IO makes the determination of whether the exit is passive or active, in consultation with the relevant manager, and notifies the Project Team, including the LESS and the Project Lawyer, in case of a proposed active exit.
- 5.110. The IO is responsible for working with the LESS and broader Project Team³⁴ to conduct the Responsible Exit Analysis for all active exits and including this analysis in the ESAM or Prepayment/Acceleration Memo. If the project has no known outstanding concerns regarding outstanding E&S issues, the IO and the LESS provide such clarification in the ESAM or Prepayment/Acceleration Memo.
- 5.111. For any project in which IFC is contemplating an active exit, the LESS is responsible for (in coordination with the IO) determining whether or not there are any outstanding significant E&S issues in the project, e.g., action items in the ESAP that have not yet been completed, ongoing engagement with affected communities and or/workers, CAO complaints, direct complaints or ongoing CSO engagement at the time of exit. For contemplated partial/full active exits from equity investments with significant E&S issues (and where there is ongoing engagement with affected communities and or/workers regarding significant E&S issues), the LESS coordinates with the IO to flag such issues as part of the annual equity sales plan and the mid-year review of such.
- 5.112. The Responsible Exit Analysis and E&S part of the ESAM or Prepayment/Acceleration Memo are reviewed by the ESRO if the ESRR at exit is 3 or 4, or the relevant ESGRM when ESRR at exit is 1 or 2. If the ESRR at exit is 3 or 4, then the Regional Director and CES Director also clear the Responsible Exit Analysis.
- 5.113. In the event of an active exit during a CAO case, the Responsible Exit Analysis is cleared by the relevant Regional VP and the CRFVP, after clearance by the CES and Regional Directors and CAO is informed of IFC's upcoming exit.
- 5.114. If there is any internal IFC disagreement as to whether IFC should proceed with an exit in which there are a known outstanding significant E&S issues, the decision on such project is escalated in accordance with the procedures on investment operations (portfolio and supervision), as well as the Accountability and Decision-Making Framework.
- 5.115. Loan Prepayment/Acceleration. Loan prepayment can be voluntary (initiated by the client) or mandatory (i.e., loan acceleration initiated by IFC). When an IO becomes aware that a pre-payment is likely, the IO prepares a Prepayment/Acceleration Memorandum. Among other things, this memo states whether the prepayment is voluntary or mandatory and identifies the reason for prepayment in more detail. The memo includes the E&S section, with the LESS adding further remarks considered necessary to provide a complete understanding of the client and project's E&S performance. Where the prepayment or

³⁴ The Project Team may consult with other project teams in other regions and sectors, as well as ESROs as needed, to leverage existing knowledge and experience from projects that have previously been the object of Responsible Exit.

acceleration constitutes an active exit (i.e. where IFC initiates loan acceleration or IFC could but does not block loan prepayment), the cleared Responsible Exit Analysis is added to the memo.

- 5.116. Equity Sales. IFC has an established process to identify the equity investments considered for sale. Each Industry Department prepares an equity sales plan in March / April each year, and this plan is reviewed after six months. When it becomes likely that a part or all of an equity investment may be sold within 18 months, the IO prepares an ESAM. The ESAM includes the E&S section, with the LESS adding further remarks considered necessary to provide a complete understanding of the client and project's E&S performance. The ESAM also includes the cleared Responsible Exit Analysis. The LESS coordinates with the IO to flag any changing E&S circumstances at the mid-year annual equity sales plan review and confirms that the ESAM is accurate and up to date immediately before exit.

VI. Advisory and Upstream Operations

- 6.1. This section is divided into:

- a. Classifying E&S Risks in Advisory Projects;
- b. Mainstream and Upstream Advisory Projects – other than PPP Advisory Projects;
- c. Public-Private Partnership (PPP) Transaction Advisory Projects; and
- d. Collaboration and Co-development (CnC) Upstream Projects.

- 6.2. Advisory projects have traditionally been a mechanism for IFC to de-risk investments and open markets to new private sector opportunities. The scope of IFC's client-facing Advisory operations includes the following:

- a. *Enabling environment advisory* – IFC provides advice to public and/or private sector entities to improve the conditions, policies and/or institutions that impact private firms in a particular market or sector. Areas of improvement can include a market or sector's legal or policy framework, economic conditions, social infrastructures, access to resources and information, and presence of supportive and capable institutions;
- b. *Firm-level advisory* – IFC provides advice to private sector companies or state-owned enterprises to build their capacity, expand their impact and/or manage risks; and
- c. *Transaction advisory* – IFC provides advice to public sector entities on developing, structuring and competitively tendering public-private partnerships; or supports private sector companies with initiating and executing mergers, acquisitions and investment partnerships.

In addition, IFC Advisory also undertakes activities to identify early-stage market opportunities, develop and test new Advisory solutions, share global knowledge and create/maintain IFC thought leadership. These activities are generally focused on improving IFC's understanding and product offering, such as Diagnostic and Seed, Knowledge and Product Development activities.

- 6.3. IFC's Upstream approach is characterized by undertaking activities with the intent of unlocking and creating new markets and/or investment opportunities. The key tenet of this approach is the ability to discern ex-ante a "line of sight" from an Upstream activity to a potential IFC investment within five years. Upstream activities comprise IFC engagements which aim to:

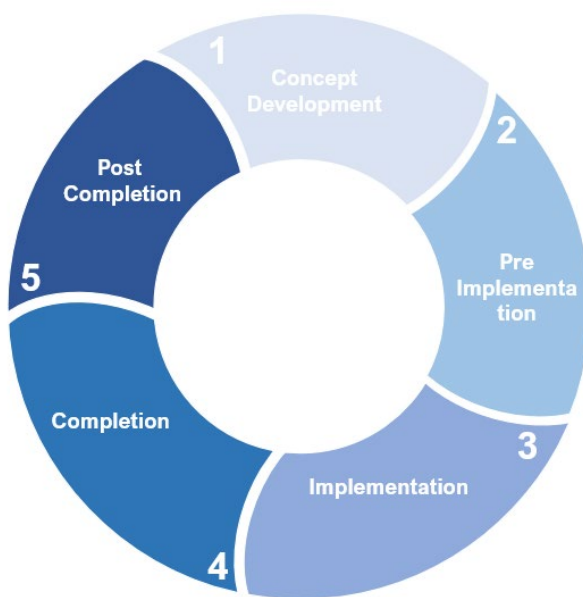
- a. Generate broader market or sectoral impact that can facilitate a series of private sector investments (referred to as "Creating Markets with Sector Interventions" or "Sector Upstream"); and
- b. Support the creation and realization of specific bankable projects that can provide wider demonstration effect or set market precedent (referred to as "Creating Markets with Project Interventions" or "Project Upstream").

Upstream activities are either advisory in nature (i.e., follows the Advisory Project Cycle, hereinafter referred to as "Upstream Advisory" or more generally as "Advisory" where appropriate) or investment in nature (following the Upstream Collaborations

and Co-Developments Project Cycle, hereinafter referred to as “Upstream Investment” or CnCs). In CnCs IFC acts as a potential investor with potential investment partners.

- 6.4. The procedures on upstream and advisory project governance describe the decision-making process, roles and responsibilities for Advisory projects through the Advisory and Upstream Project cycles (Concept Development, Pre-Implementation, Implementation, Completion, Post Completion), and key requirements at each project stage.
- 6.5. The procedures define the role of E&S as a Technical Reviewer Role in the Accountability and Decision-Making (ADM) framework, rendering relevant and current advice with respect to the portion of the proposal corresponding to the E&S specialty, with option to escalate an approval decision.
- 6.6. The scope of all advice and training provided by IFC to external clients in the context of an Advisory project will be consistent with the [Policy on Environmental and Social Sustainability](#) (PS)³⁵. IFC reviews each proposed Advisory activity for E&S risk to support IFC operations teams in helping Clients manage E&S risks and impacts. Should the review result in the identification of E&S risks, the advice provided to Clients will be consistent with the PS as a framework for good international industry practice (GIIP) in E&S risk management. All E&S activities (whether intended as E&S risk management or other forms of enhancement of E&S outcomes) across all Advisory projects are conducted with the concurrence, and under the oversight of, a designated E&S Specialist³⁶. IFC can also work with Advisory Clients to achieve positive improvements in E&S performance and help Clients move towards greater consistency with the PS even if they are not able to meet the objective fully during the life of the Advisory activity.³⁷
- 6.7. **Figure 2 Advisory Project Cycle** (including PPP Transaction Advisory) and Upstream projects describes the project cycle (there are some variations according to the nature of the advice and the risk level). CnC projects follow a different project cycle (see Paragraph 6.92 and subsequent paragraphs).

Figure 2. Advisory Project Cycle



³⁵ See paragraph 4.

³⁶ In this context, “E&S Specialist” should be understood to mean any IFC staff or consultant who has an E&S risk management role. This includes E&S Specialists (staff members or consultants), REALs, RILs, ESROs, CES and ESG Managers or Directors.

³⁷ Sustainability Policy, paragraph 39.

Classifying E&S Risk in Advisory and Upstream Projects

- 6.8. Except for CnC Pilots where E&S risk is categorized in the same way as for investment projects, the E&S risk level of Advisory or Upstream projects is categorized as high, medium or low according to the risk that, without careful management, the project's activities or the Client's operations are not fully consistent with IFC's Performance Standards.³⁸ E&S risk levels are one of the criteria that determine IFC project tiering.
- 6.9. The factors determining the E&S risk level of projects that include a Firm-level or Transaction advisory component, irrespective of project type, comprise: (i) the scope of the Advisory or Upstream activity; (ii) sector and country context; (iii) overall potential E&S impact of current or future business activities supported by the project, and IFC's risk exposure to these beyond the life of the project; (iv) current E&S performance of the Client; and (v) commitment of the Client and related risk that IFC advice may not be implemented.
- 6.10. The E&S risk level of projects without a Firm-level component is determined based solely on the scope of the Advisory activity.
- 6.11. The E&S risk level of projects providing advice to multiple Firm-level Clients should be set based on the Client with the riskiest profile. When no client is firmly identified at Concept or Pre-Implementation stage, the E&S risk level is determined based on sector and country context. The PL should seek advice from the REAL on updating the E&S risk level based on new engagements.
- 6.12. Notwithstanding paragraphs 6.8 and 6.9, the E&S risk level of CnC pilot projects is aligned with the process for Direct Investment New Business as described in paragraphs 4.6 and 4.9, except that escalation to T3CP for new transactions with Clients who have active CAO cases or an ESRR 3/4 is not required. Refer to paragraph 6.16.
- 6.13. The factors identified in paragraph 6.9 can apply differently to individual projects, depending on the specific type of activity as defined in paragraphs 6.2 and 6.3. The E&S review process distinguishes three broad types of Advisory and Upstream projects: (i) Mainstream Advisory or Upstream Advisory Projects; (ii) PPP Projects; and (iii) Upstream CnC Projects. Each project type requires a different approach, with Upstream and PPP projects discerning ex-ante a direct line of sight to a potential investment, as described in the sections that follow.
- 6.14. The E&S risk level of a project that includes specific Advisory activities to support E&S risk management and/or performance of the Client is categorized, at a minimum, as medium. The PL should seek clearance of the REAL on each individual Firm-level engagement that includes activities to support E&S risk management and/or performance of the Client, prior to communicating the scope of work to the Client.
- 6.15. The E&S risk level of a project is subject to change over the project cycle as new information becomes available. Proposed changes in E&S risk levels will be reviewed during IP and PSR clearance processes.
- 6.16. When a new Advisory or Upstream (including CnC) engagement is contemplated with an existing mainstream investment Client who has an active project with an ESRR of 3 or 4 or with an active CAO case, irrespective of inherent E&S risk in the new engagement, the new engagement shall be considered a H-RP and Tier III on account of E&S risks.

Mainstream and Upstream Advisory Services Projects (except PPP)

- 6.17. For the purposes of the ESRP, Upstream Advisory Projects are projects where IFC is acting as an advisor and includes sector upstream and project upstream client or sector development projects subject to the Advisory project cycle.

³⁸ See paragraphs 38-39 of the Sustainability Policy ("Overall Approach for Advisory Services"). Note that the Sustainability Policy does not expressly define how to categorize the E&S risks of proposed advisory activities.

- 6.18. The risk level of a Mainstream Advisory or Upstream Advisory Project with an existing IFC investment Client (post-Mandate or Portfolio) is considered only on the basis of:
- a. The scope of the activity and the risk that IFC's advice provided to the Client will not be fully consistent with the PS³⁹; and
 - b. The E&S risks related to the business activities of the Client that are supported by IFC's Advisory project, but that are not included in the investment project and therefore expose IFC to additional reputational risk.

Concept Development Stage

- 6.19. The objective of the E&S review during Concept Development is to identify material E&S risks, potential mitigation measures and to describe the initially identified E&S risk level in the Concept Note (CN). In addition, for Upstream Advisory projects, the E&S review identifies potentially significant bottlenecks related to the ability of future investment opportunities' ability to meet Performance Standards requirements. E&S review of all Mainstream or Upstream Advisory Projects is led by the REAL.
- 6.20. *Key E&S Deliverables:*
- a. Review E&S Risk and Mitigation section of the CN (REAL);
 - b. Validate or propose E&S risk level for the project and propose E&S project tiering (REAL);
 - c. Provide E&S risk analysis and input at CRM (REAL);
 - d. Where relevant for Upstream Advisory, design an E&S risk identification and mitigation scope of work (REAL); and
 - e. Clear and, as needed, escalate the CN with guidance comments, confirm the E&S risk level (REAL for L-RP and M-RP, or ESGRM for L-RP and M-RP Upstream Advisory projects when financing rights are contemplated, and ESRO for H-RP).
- 6.21. The PL conducts preliminary identification and review of E&S risks in Mainstream Advisory projects, capturing material risks, proposing mitigation measures and an initial E&S risk level. These are captured in the Risk Section and reflected in the draft CN.⁴⁰
- 6.22. The PL notifies the REAL about all prospective new Upstream Advisory projects and about Mainstream Advisory projects that the PL considered to be medium or high E&S risk, and captures the E&S input provided by the REAL, ahead of workflow, in the Risk Section and the CN. The PL may also, at his/her discretion, reach out to the REAL for advice on L-RP Mainstream Advisory projects.
- 6.23. *Initial Review:* There is no mandatory E&S review within the project cycle for Mainstream Advisory L-RPs. For other projects, the REAL undertakes a preliminary identification and review of E&S risks in the proposed project and for Upstream Advisory projects also identifies potentially significant bottlenecks to meeting PS requirements in the context of future investment opportunities that IFC is trying to unlock or create. The REAL reviews (for M-RP and H-RP Mainstream Advisory) or drafts (for all Upstream Advisory) the E&S risk section for the CN. The E&S risk section identifies material risks and proposed mitigation measures, and for Upstream Advisory describes potentially significant bottlenecks to meet PS requirements in future investment opportunities that IFC is seeking to unlock or create. When reviewing an E&S risk section drafted by the PL, the REAL recommends, where relevant, updates the initial E&S risk level and E&S risk section to capture material risks and propose mitigation measures. The REAL may consult the RIL or other E&S specialists where additional sectoral expertise would assist the REAL in CN review and to maintain sectoral consistency.
- 6.24. *CRM:* When a CRM takes place, the PL invites the REAL to CRM for medium and high risk projects. The REAL advises the ESGRM, PL and Management on potential E&S risks and issues and provides an initial E&S risk analysis and level.
- 6.25. *Concept Clearance.* The REAL reviews CNs of medium and high risk Mainstream Advisory projects, and all CNs for Upstream Advisory projects, in Collaboration or offline, including:

³⁹ In such cases, the E&S risk identification and mitigation approach are conducted under the investment project cycle.

⁴⁰ For projects without a concept stage, actions described in paragraph 6.22 and 6.23 (on basis of available documentation), will be implemented during the Pre-Implementation Stage, prior to appointment of the LESS.⁴¹ As feasible, for projects not subject to an Implementation stage, actions described in paragraph 6.31 to 6.40 will commence during the Concept stage.

- a. E&S risk analysis and level, and any implications for project tiering;
 - b. E&S activities needed to assess and mitigate E&S risks during Pre-Implementation and Implementation; and
 - c. For Upstream Advisory E&S activities required to mitigate E&S risks related to the bottlenecks to PS alignment described in earlier paragraphs.
- 6.26. In case where financing rights – Right of First Offer (ROFO) and Right of First Refusal (ROFR) – are envisaged in Upstream Advisory projects, the REAL forwards the CN to the ESGRM (L-RP and M-RP) who clears the CN in the ADM workflow and provides Guidance or Deal Breaker comments as outlined at paragraph 6.25 above. In cases where no financing rights are envisaged, the REAL clears the CN (L-RP and M-RP) in the ADM workflow and provides Guidance or Deal Breaker comments as outlined at paragraph 6.25 above.
- 6.27. The ESRO is accountable for providing comments and clearing the CN of H-RP as outlined at paragraph 6.25 above.
- 6.28. If a project is classified as Tier III due to E&S considerations, the REAL briefs the ESGRM and RD and the ESRO provides comments to the CES Director ahead of T3PC meeting (if held) or closing date.
- 6.29. Based on the guidance provided by the REAL and, for H-RP by the ESRO, the PL updates the E&S risk section and level in the system. The business area manager should consider returning for quick edits a CN where E&S advice has not been implemented.
- 6.30. The REAL designs the E&S risk identification and mitigation or advisory scope of work, if any, of the Mainstream or Upstream Advisory project to be delivered under REAL oversight during the project's lifecycle and, where relevant, reflected through an E&S product percentage and E&S budget component. The REAL may seek input from other E&S specialists, including the RIL, in developing this scope of work.

Pre-implementation Stage

- 6.31. The objective of the E&S review during the pre-implementation stage is to assess E&S issues identified during CN review, confirm the need for further E&S analysis, develop a mitigation approach and potential E&S activities for the project⁴¹.
- 6.32. *Key E&S Deliverables:*
- a. Reviewed and as needed updated E&S Risk and Mitigation section of the IP (LESS);
 - b. Validated E&S risk level and project tiering (LESS for M-RP, ESRO for H-RP);
 - c. Issued E&S Memo for H-RP (LESS drafts, ESRO clears);
 - d. Design of E&S activities in the IP where relevant (REAL); and
 - e. Clear the IP with guidance comments (ESGRM for M-RP or ESRO for H-RP).
- 6.33. The ESGRM assigns the LESS to the project. The REAL may serve as LESS. The REAL is also responsible for the design of any E&S advisory activity and recommends whether the project must reflect an E&S product percentage.
- 6.34. *Risk Assessment:* For M-RP and H-RP, the LESS, in collaboration with the PL, reviews and assesses E&S issues identified during Concept review, develops a mitigation approach, and confirms the need for further E&S analysis or an E&S advisory scope of work to move Clients towards greater consistency with the PS. The PL is accountable for the implementation of activities to further analyze E&S risks, as relevant. The LESS is responsible for internal technical support and review of these activities.⁴² The REAL is responsible for the delivery of E&S advisory activities.
- 6.35. *E&S Memo:* For H-RP Mainstream and Upstream Advisory Projects, the LESS prepares an E&S Memo. This memo, based on available information:

⁴¹ As feasible, for projects not subject to an Implementation stage, actions described in paragraph 6.31 to 6.40 will commence during the Concept stage.

⁴² Such activities may include drafting of terms of reference, diagnostics, audits, impact assessments, management plans, etc.

- a. Identifies areas where the project provides advice relevant to the PS and formulates recommendations to enable consistency with the PS;
 - b. Screens key E&S risks and impacts of the business activities supported by the project, including contextual risks and determines likely gaps where Client business activities may not meet PS requirements during the life of the Mainstream or Upstream Advisory Project;
 - c. Recommends whether the project is to be classified as Tier III due to E&S considerations and notifies the ESGRM and ESRO in case of significant gaps with PS requirements that may be challenging to address;
 - d. Advises on specific mitigation measures for the project, including if E&S support activities are desirable to help the Client achieve positive improvements in its E&S performance, and move towards greater consistency with the PS; and
 - e. As needed, makes recommendations to the PL on E&S related provisions of draft legal agreement(s) to be signed during Pre-Implementation, for further review and clearance by CLED.
- 6.36. The LESS submits the E&S Memo for H-RPs to the ESRO for review and clearance. Once the E&S Memo is cleared, the LESS shares it with the PL and the ESGRM and files it in the system. The PL integrates the recommendations provided in the E&S Memo into the IP.
- 6.37. *Legal Agreements:* For medium and high-risk Mainstream and Upstream Advisory Projects the LESS reviews, make recommendations and clears the legal agreement(s) prior to communication to the Client. The LESS consults with the REAL when the scope of work includes the provision of E&S guidance or training.
- 6.38. *Project Implementation Plan Clearance:* The LESS reviews the IP of M-RPs and H-RPs, in Collaboration or offline including updating E&S risk analysis and level.
- 6.39. The ESGRM (M-RP) or ESRO (H-RP) clears the ADM workflow and concurs, through Guidance or Deal Breaker comments, on the basis of the input outlined in the E&S Memo for H-RP (see paragraph 6.35).
- 6.40. With respect to project types that are not subject to an Implementation stage, the provisions of paragraphs 6.41 to 6.48 below will be integrated into the Pre-Implementation stage of work.

Implementation Stage

- 6.41. The objective of the E&S review during the Implementation stage is to monitor and support the implementation of E&S risk mitigation measures and E&S support activities for the project.
- 6.42. *Key E&S Deliverables:*
- a. Review and clear the E&S section in the Summary of Advisory Services Project Information (ASPI) (LESS);
 - b. Recommend any updates to the E&S risk level and E&S risk section and mitigation section of the Project Supervision Report, PSR (LESS);
 - c. Recommend E&S support activities to Upstream Advisory projects as specified in the Implementation Plan (REAL); and
 - d. Clear the PSR of M-RPs and H-RPs with guidance comments (ESRO for H-RP and LESS on all other projects).
- 6.43. *ASPI:* The PL prepares the ASPI. For all Upstream Advisory projects and for high-risk Mainstream Advisory projects, the LESS reviews the E&S section of the ASPI. The PL documents and launches workflow for the final ASPI.
- 6.44. *Legal Agreements:* If legal agreements are signed during Implementation, refer to paragraph 6.37.
- 6.45. The PL manages implementation of mitigation measures and E&S activities to help the Client achieve positive improvements in its E&S performance and move towards greater consistency with the PS, with technical support of LESS where relevant and oversight of the REAL when Advisory activities include an E&S component.
- 6.46. The PL reports on the progress with the implementation of E&S risk mitigation measures and activities in the PSR. If relevant, the PL updates the E&S risk level based on guidance from the LESS.

- 6.47. *PSR Clearance:* The LESS reviews the PSR of medium and high-risk projects in Collaboration, including the updated E&S risk analysis and level. The LESS clears the PSR of M-RP and concurs, through Guidance or Deal Breaker comments, with updated E&S risk analysis and risk level. The ESRO clears the PSR of H-RP and concurs, through Guidance or Deal Breaker comments, with updated E&S risk analysis and risk level.
- 6.48. If, during the implementation of the Upstream Advisory project, the REAL, LESS or ESRO (for H-RP) determine that the Client is unlikely to address significant bottlenecks related to meet PS requirements in future investment opportunities IFC is trying to unlock or create, they will call a meeting between the LESS, ESRO (for H-RP), REAL, ESGRM, PL and Manager of the implementing Department to advise whether termination or early closure of the project is recommended. If no consensus is reached, the decision can be escalated as outlined in Section VIII.

Completion Stage

- 6.49. *Key E&S Deliverables:*
- a. Draft E&S Memo for medium and high risk Upstream Advisory projects with financing rights (LESS) and clearance (ESGRM).
- 6.50. At the Completion stage, the LESS assigned to the project prepares a Completion E&S Risk Memo for medium and high risk Upstream Advisory projects that included financing rights (ROFO/ROFR). The memo captures and analyzes key risks and findings of activities implemented during the project and makes recommendations for any subsequent investment projects under consideration. The ESGRM reviews and clears the Completion E&S Risk Memo for medium projects and for high-risk projects. After clearance, the LESS forwards the Completion E&S Risk Memo to the ESRO for information purposes.
- 6.51. The ESRO can add recommendations to the Completion E&S Risk Memo to document for consideration of a future investment.

PPP Transaction Advisory Projects Including Projects Flagged as Upstream

- 6.52. The objective of the E&S review of PPP Advisory projects is to advise PPP Clients about E&S issues affecting the project, proposed risk allocation, related information gaps and ways to close such gaps to support the project development in a manner consistent with PS.
- 6.53. The risk level for PPP Advisory projects is considered on the basis of the E&S risks and impacts of the PPP that is developed by the Client with support of the Advisory Project (refer to Paragraph 6.9, factor (iii)). Risk levels in the PPP Advisory projects therefore correspond to the risk categories that the Sustainability Policy defines for categorizing the E&S risks of a proposed investment. To further align with the risk management of investment projects, PPP Advisory projects also adopt a tailored version of the H-RP tagging approach.⁴³
- 6.54. A PPP Advisory project that supports a PPP which presents E&S risks and impacts as per the definition of Category A in the Sustainability Policy will be classified as H-RP. Those projects that meet the definition of Category B in the Sustainability Policy and for which one of the following criteria applies will also be classified as H-RP:
- a. Repeat mandates with Clients that have an active CAO case;
 - b. Projects with former Clients that have an active/closed CAO case; and/or
 - c. On an exceptional basis, selected projects with complex and/or novel E&S issues or Advisory structures.
- 6.55. PPP Advisory projects that meet the definition of Category B in the Sustainability Policy and do not meet any of the above criteria will be classified as medium risk (M-RP). PPP Advisory projects that meet the definition of Category C in the Sustainability Policy will be classified as low risk (L-RP).

⁴³ See paragraph 40 of the Sustainability Policy for the E&S categorization of investment activities and paragraphs 4.8 and 4.9 of this ESRP.

- 6.56. The CTA Anchor is responsible for screening and preparation of E&S input to the CN, including definition of E&S risk level and E&S risk tiering.
- 6.57. The ESRO-CTA is responsible for the review of the quality of the E&S aspects of processing of the PPP Advisory projects which are tagged as H-RP and provides guidance to E&S Specialists on global consistency and technical issues, as needed across all stages of the project cycle. The ESRO-CTA reports to the CESRM. The ESRO-CTA reviews all projects during the Concept stage of the project cycle. For all other projects which are processed as non-high risk, the ESRO-CTA provides insights into the quality of project processing by review of lessons from periodic portfolio review.
- 6.58. Projects which are classified as M-RP or L-RP are processed by the region and are cleared by the ESGRM.

Concept Development Stage

- 6.59. The objective of the E&S review of PPP Advisory projects during Concept Development is to contribute E&S considerations to go or no-go decision, to identify Pre-Implementation activities, to initially identify material E&S risks, potential mitigation measures and to establish the initial E&S risk level.
- 6.60. *Key E&S Deliverables:*
 - a. Draft E&S Risk and Mitigation section of the CN (CTA Anchor);
 - b. Proposed E&S Risk Level and project E&S Tiering for the project (CTA-Anchor); and
 - c. Reviewed and cleared CN with guidance comments, confirming E&S Risk Level, E&S Tiering, and identifying projects for ESRO⁴⁴ oversight during processing. (ESRO-CTA).
- 6.61. The PL notifies the CTA Anchor about prospective new projects, captures in the Risk Section and reflects in the CN the E&S input provided by the CTA Anchor ahead of the workflow.
- 6.62. *Initial Review:* The CTA Anchor conducts a preliminary identification and review of E&S risks, including contextual risk screening, for all PPP projects and drafts the E&S risk section for the CN that captures material risks, proposes mitigation measures and recommends the initial E&S risk level.⁴⁵ The CTA Anchor indicates when E&S factors may affect the tiering classification.
- 6.63. *CRM:* When a CRM takes place, the PL invites the CTA Anchor to participate. The CTA Anchor advises the PL and Management on potential E&S risks and issues and the recommended initial E&S risk level and E&S Tiering. For H-RP, the PL also invites the ESRO-CTA to participate to discuss E&S risks and recommendations for their management.
- 6.64. The ESRO-CTA clears the CN for all PPP Advisory projects in ADM workflow and concurs, through *Guidance or Deal Breaker* comments, on the E&S risk analysis, risk level and project tiering on account of E&S risks and consequential E&S clearance authority (ESRO-CTA for H-RP and ESGRM for other projects) as well as the proposed E&S activities to assess and/or mitigate E&S risks of the project during Pre-Implementation and Implementation.
- 6.65. If a project is classified as Tier III due to E&S considerations, the ESRO-CTA provides comments to the CESRM for onward communication to the CES Director and Vice President, Risk and Finance. In parallel, the ESRO-CTA shares the comments sent to the CESRM with the ESGRM who informs the Regional Director for onward communication to the VP-level Decider.

Pre-Implementation Stage – Implementation Plan Development

- 6.66. The objective of the E&S review during the Pre-Implementation stage of PPP Advisory projects is to contribute E&S considerations, based on the Pre-Implementation activities, to go or no-go decision to sign the mandate, and to assess E&S

⁴⁴ E&S processing of all PPP Projects is undertaken by regional E&S teams. Projects identified as E&S Risk Level H-RP are subject to ESRO oversight. Projects designated M-RP and L-RP are overseen by the ESGRM.

⁴⁵ For projects without a concept stage, actions described in paragraphs 6.61 and 6.62 (on basis of available documentation), will be implemented during the Pre-Implementation Stage.

issues identified during CN review, confirm the need for further E&S analysis, and develop the mitigation approach and potential E&S support activities for the project.

6.67. *Key E&S Deliverables:*

- a. Draft E&S Memo for M-RP and H-RP (LESS);
- b. E&S input to the PL for inclusion in the IP for L-RP (LESS);
- c. Terms of Reference for E&S studies (LESS, with support from ESRO-CTA for H-RP);
- d. The E&S Section in Summary of Advisory Services Project Information (ASPI) (LESS); and
- e. Cleared IP with guidance comments (ESRO-CTA for H-RP, ESGRM for others).

6.68. *Assigning the LESS:* The ESGRM assigns the LESS. The LESS is appointed based on the technical, sectoral, regional and project management expertise necessary to successfully complete the project. The LESS is the E&S Specialist responsible for E&S aspects of project processing. When additional or complementary skills are needed, the ESGRM assigns a SESS and as needed, thematic specialists to the project.

6.69. *Risk Assessment:* For L-RP, the LESS reviews and confirms the risk classification and tiering proposed by the cleared CN and confirms how the minimal E&S risks should be managed or proposes a revised risk classification and tiering. For M-LP and H-RP, the LESS reviews and updates E&S issues that were identified during Concept review, develops mitigation approaches, and confirms the need and the scope for further E&S analysis. The LESS and, in turn, the ESGRM are responsible for informing the ESRO-CTA about any E&S risks emerging during (pre) implementation, not foreseen at the CN stage and which may increase the project risk profile.

6.70. *E&S Memo:* The LESS prepares an E&S Memo for H-RP and M-RP. For L-RP, E&S commentary is provided by LESS directly to the PL for inclusion in the IP. The E&S Memo, based on available information:

- a. Identifies key E&S risks and impacts of the project, including contextual risks; determines potential gaps with PS and potential mitigations; and confirms/updates the E&S risk level;
- b. Recommends whether the project is to be classified as Tier III due to E&S considerations and notifies ESGRM and ESRO-CTA in case of significant gaps with PS requirements that may be challenging to address;
- c. Defines next steps of the ESDD during implementation and estimates the level of internal and external resources needed for the ESDD; and
- d. Recommends specific provisions for the Mandate agreement with the prospective Client, as needed.

6.71. The LESS prepares the Terms of Reference for E&S studies and participates with the PL in the selection and hiring of consultants for the E&S studies. The ESRO-CTA is consulted and supports the definition of scope for E&S studies for H-RP. For all other projects, the LESS consults with ESGRM. The PL is responsible for the procurement and financial aspects of the contract.

6.72. *ASPI – E&S Considerations:* The PL prepares the ASPI, and for H-RP and M-RP the LESS reviews the E&S section of the ASPI.

6.73. *Legal Agreement:* For M-RP and H-RP, the PL shares, before sharing with the Client for discussion, the draft client legal agreement(s) with the LESS, who reviews E&S related provisions of the draft legal agreement(s) and shares the review and comments with the ESRO-CTA for H-RP, and with the ESGRM for M-RP. After inputs have been received from ESRO-CTA or ESGRM as appropriate, the LESS makes any recommendations with respect thereto in consultation with the Project Lawyer. The draft legal agreement(s) follows the relevant specimen and includes a description of the E&S review that IFC will undertake, relevant Performance Standards, the E&S support that IFC will offer, and, where relevant, any expected E&S actions from the Client.

6.74. The LESS submits the draft IP with the E&S Memo to the ESGRM for review and agrees revisions if any with the ESGRM. After ESGRM review, for H-RP the LESS shares the E&S Memo with the ESRO-CTA. After clearance (by the ESGRM or by the ESRO-CTA for H-RP) the LESS shares the E&S Memo with the PL and files the cleared E&S Memo.

- 6.75. *Project Clearance:* The ESGRM reviews the IP of L-RP and M-RP, in *Collaboration* and/or in the ADM workflow, and advises Management through *Guidance* or *Deal Breaker* comments, including updated E&S risk analysis and level. The ESGRM clears the IP of L-RP and M-RP in ADM workflow and forwards the IP of H-RP to the ESRO-CTA for review.
- 6.76. The ESRO-CTA clears the IP of H-RP in ADM workflow and concurs, through *Guidance* or *Deal Breaker* comments, on the basis of the input outlined in the E&S Memo (see paragraph 6.70).

Implementation Stage

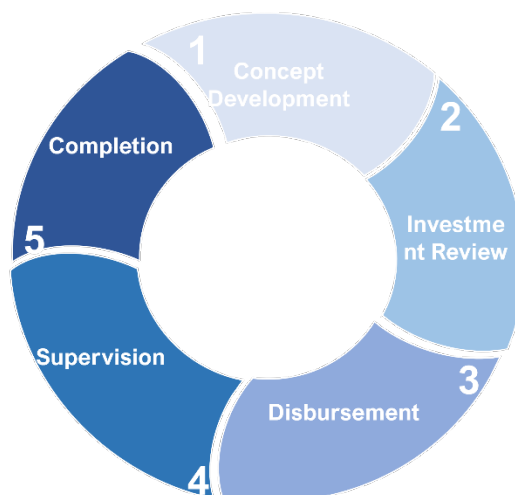
- 6.77. The objective of E&S review during the Implementation stage is to undertake the ESDD, review its findings and formulate recommendations to help Clients move towards greater consistency with the PS. The PL is accountable for the implementation of activities defined during the Pre-Implementation stage, as provided in the IP. The LESS is responsible for technical support and oversight of these activities.
- 6.78. *Key E&S Deliverables:*
- a. Comments on E&S reports prepared by consultants (LESS);
 - b. E&S considerations for the internal TSR meeting;
 - c. E&S Risk Allocation Memo (ESRAM) for M-RP and H-RP (LESS) and clearance (ESGRM for M-RP /ESRO-CTA for H-RP); and
 - d. Input to the Transaction Structure Review (TSR) deliverable for L-RP (LESS).
- 6.79. *Quality at Entry (QAE) Meeting:* When a QAE meeting is held the PL invites the LESS, and for H-RP the ESRO-CTA, to attend. After consultation, the CESRM decides regarding attendance of the ESRO-CTA. The PL integrates the guidance provided in the E&S Memo and the Quality at Entry meeting, into project implementation planning.
- 6.80. The LESS oversees the consultants' delivery of the E&S studies and provides comments to the consultants to finalize the ESDD and, if necessary, recommends additional studies to complete the ESDD. The LESS archives relevant information and studies as records of the ESDD and shares them with the ESGRM and, for H-RP, the ESRO-CTA. The LESS timely engages with the ESRO-CTA in the preparation of the E&S input for the internal TSR meeting and the ESRAM for H-RP.
- 6.81. *Internal TSR Meeting:* The LESS prepares the E&S considerations for the internal TSR meeting: this takes the form of an update on the process of assessment and development of recommendations to manage E&S risks identified at Concept stage and since. If the E&S studies are complete by the time of the internal TSR, the LESS reports the consultants' key findings – if not complete then the LESS will provide an update, including timeline to complete the studies. The ESGRM reviews the E&S considerations, and clears for projects processed by the region. The ESRO-CTA clears E&S considerations for H-RP. The LESS attends the internal TSR meeting, presents key findings and mitigations, answers questions, and subsequently reviews the minutes, consulting with the ESGRM and, as relevant, the ESRO-CTA. For H-RP the ESRO-CTA is invited to the internal TSR meeting – attendance will be determined following consultation with the CESRM. When the ESRO-CTA attends the TSR meeting, it is good practice for the LESS and ESRO-CTA to consult ahead of the meeting.
- 6.82. As necessary, the PL integrates the E&S considerations presented to the internal TSR meeting, or the meeting recommendations into the communication and documentation shared with the Client.
- 6.83. *E&S Risk Allocation Memo:* Once the E&S studies are finalized and after the internal TSR meeting, the LESS prepares an E&S Risk Allocation Memo (ESRAM) for M-RP and H-RP. For L-RP, input is provided by the LESS in the TSR deliverable. The ESRAM, based on the results of the ESDD and conclusions of the internal TSR meeting:
- a. Confirms the overall project E&S risk level, summarizes key findings of the ESDD, and recommends potential measures to mitigate identified E&S risks and impacts;
 - b. Proposes a risk allocation strategy to be recommended to PPP Clients for inclusion in the PPP agreements (which party of the PPP agreement will be responsible to manage the different E&S impacts and risks identified in the ESDD); and
 - c. Suggests E&S provisions for the PPP agreement (term sheet).

- 6.84. For all M-RPs and H-RPs, the LESS submits the ESRAM to the ESGRM for review and integrates any comments. When satisfied, the ESGRM clears the ESRAM for M-RPs. For H-RP, after ESGRM review, the LESS sends the ESRAM to the ESRO-CTA for review and clearance, together with the relevant supporting documents. Following clearance, the LESS distributes the ESRAM to the PL. The PL share the ESRAM with the Client as part of the TSR deliverable.
- 6.85. The LESS provides E&S input to the PSR, reporting on progress with the implementation of E&S risk mitigation measures and updates the E&S risk analysis and E&S risk level accordingly. If the LESS assesses that the E&S risk level of the project has changed, he or she discusses with the ESGRM and, for H-RPs or M-RPs becoming H-RPs, seeks concurrence of the ESRO-CTA. The PL integrates the input into the PSR ahead of workflow.
- 6.86. *PSR Clearance:* The ESGRM reviews the PSR for all projects in ADM workflow, and advises Management through *Guidance* or *Deal Breaker* comments, including on updated E&S risk analysis and risk level. The ESGRM clears the PSR of L-RP and M-RP. The ESRO-CTA clears the PSR of H-RP.
- 6.87. The ESRO-CTA clears the PSR of H-RP in ADM workflow, and concurs, through *Guidance* or *Deal Breaker* comments, with updated E&S risk analysis and risk level.
- 6.88. If, during the implementation of the PPP Advisory Project, the LESS, the ESGRM or ESRO-CTA (for HRP) determine that an agreement on closing significant gaps with PS requirements may not be reached with the client by project completion, they will call a meeting between the LESS, ESRO-CTA, ESGRM, CESRM, PL and CTA Manager to discuss the situation and may advise whether termination or early closure of the project is recommended. If no consensus is reached, the decision can be escalated as outlined in Section 7.
- 6.89. *PPP Portfolio Review:* On a quarterly basis, the ESGRM, jointly with the ESRO-CTA, prepares a summary presentation on the status of the regional H-RP, triggering two or more of the relevant HRP_(P) criteria (see paragraph 5.14), applicable to PPP projects, to update the Regional Vice President on the status of the projects. This presentation is discussed at the meeting jointly chaired by the RVP and the CRF VP where high-risk investment projects are also discussed (see paragraph 5.64).
- 6.90. The ESRO-CTA also conducts reviews of the entire PPP portfolio from time-to-time, with the objectives to identify and promote global quality and consistency of approach among and between the different regional teams that process PPP projects. Findings and recommendations arising from these reviews are shared with the regional CTA Anchors, ESGRMs, CESCS and CESRM.
- 6.91. *Project Completion Reports (PCR):* The LESS provides to the PL E&S considerations for Project Completion Reports, prepared when PPP projects are closed. The CTA Anchor clears PCR workflow for L-RP and M-RP, and forwards H-RP to the ESRO-CTA for clearance.

Upstream Collaboration and Co-Development (CnC) (Upstream Investment) Projects

- 6.92. The ESRP for Upstream Investment (CnC) define the roles and responsibilities of the regional E&S teams and CES during the following phases of the CnC project cycle:
 - a. Concept Development
 - b. Investment Review
 - I. Agreement Signing
 - II. Disclosure
 - c. Disbursement
 - d. Supervision
 - e. Completion
- 6.93. **Figure 3 IFC Collaboration and Co-Development (CnC) Project Cycle** presents the transaction processing cycle along which the ESRP is implemented.

Figure 3. IFC Collaboration and Co-Development (CnC) Project Cycle.



Concept Development

- 6.94. The Concept stage is the period between project origination and the Investment Review Meeting (IRM) (if held), and concludes with an approved Concept Note (CN). The purpose of the Concept stage is to outline the problem that IFC seeks to address through the CnC intervention and provide a summary of the investment opportunity, proposed project activities, assessment of the proposed counterparty, and risk considerations to enable an early and informed “go” or “no go” decision to be made by the ADM Decider. This is done through preparation of a CN that describes the proposed project and processing of the CN through CN workflow. A Concept Review Meeting (CRM) may be held at the discretion of the ADM Decider, and the Concept decision may be escalated to the T3PC.
- 6.95. *Key E&S Deliverables:*
- a. E&S Considerations to the CN including provisional E&S risk level (or E&S category for Co-Development Pilot projects) and E&S tiering (RIL), and review of the CN with confirmation of risk level and tiering and HRP tagging through the ADM workflow (ESRO);
 - b. Participation and input to CRM (if any) or input to T3PC meeting, as needed (RIL, ESRO inputs to T3PC); and
 - c. Provision of estimated budget to PL (internal and/or external costs) related to the E&S scope of work (RIL)
- 6.96. *Concept Note (CN) Development.* Each CN has a section on E&S considerations. The RIL receives the CN from the PL and develops the section on E&S considerations, with support from E&S Specialists, as needed. The E&S considerations are based on a preliminary review of the proposed project, including its financial structure and E&S risk screening, and include a provisional E&S risk level (or E&S categorization for Pilots) and E&S tiering; discussion of key E&S risks and impacts to be identified and managed by the Client and IFC during the project; results of risk screening (e.g., contextual, reputational, biodiversity, land acquisition and resettlement, or other risks); information gaps; expected challenges; and E&S scope of work (if any) to be developed during the project with related resource needs. The RIL may consult the ESRO in developing the E&S input to the CN, for example on matters of sectoral consistency.
- 6.97. In preparing CN input, the RIL also reviews the ongoing and historical E&S performance of the Client (including the ESRR history for current or previous IFC investments with the same Client) and documents this history in the CN. The RIL identifies repeat investments or projects with existing Clients with an active CAO case or a supervision ESRR of 3 “Partly Unsatisfactory” or ESRR 4 “Unsatisfactory” performance, and investments with former Clients that were exited in the last three (3) years that had an active CAO case or an ESRR 3 or 4 at exit.

- 6.98. *E&S Considerations:* Notwithstanding inherent E&S risk within the CnC project itself, CnC projects with existing Clients that have a supervision ESRR of 3 or 4 or an active CAO case, and CnC projects with former Clients that had an active CAO case or a supervision ESRR of 3 or 4 at exit are automatically considered E&S Tier III, HRP and require CN approval by T3PC.
- 6.99. The ESRO reviews and clears the E&S considerations in the CN as an ADM Technical Reviewer within five (5) business days. The ESRO confirms the E&S risk level and tiering and as needed, tags the projects as HRP, guides and confirms the E&S scope of work for the project and any known deal breakers, and if needed, recommends escalation to the T3PC or other authority as defined in the CnC procedures. The ESRO enters comments in the ADM workflow under the 'Guidance and/or Deal Breakers' section. The ESRO's clearance options are (a) clear; or (b) clear with escalation rights. In the event of (b), after the ADM Decider's clearance the ESRO may escalate the CN to the Escalation Decider.
- 6.100. Tier I and II Collaboration and Co-Development projects, which are not tagged as HRP, are processed by the region.
- 6.101. *Concept Review Meeting:* If a CRM is called, the RIL participates, providing supplemental E&S information where needed, and recommends an E&S "go/ no-go" decision. The ESRO participates in the CRM for HRP.
- 6.102. *Assigning the LESS.* After the project's CN is approved, the ESGRM designates the LESS. The LESS is appointed based on the technical, sectoral, regional and project management expertise necessary to successfully complete the project. The LESS is the E&S specialist responsible for E&S-related project processing and for guiding the Client and PL in the implementation of the E&S scope and for subsequent processing. When additional or complementary skills are needed, the ESGRM may assign other specialists, staff or consultants, to support the LESS' project delivery.
- 6.103. After appointment, the LESS reviews the CN and other relevant project documentation and after consulting as needed with the RIL prepares an E&S plan describing any E&S activities to be covered, and Terms of Reference for any E&S activity to be completed by external consultants.

Investment Review — Appraisal Stage

- 6.104. This is the Pre-Implementation stage where the work necessary to develop the legal agreement (Tier I Collaboration) or prepare for Investment Review (IR) (Tier II or III Collaboration or Co-Development) (and the appraisal for pilot Co-Development is undertaken).
- 6.105. *Pre-Investment Agreement:* If a pre-investment agreement is prepared, the LESS reviews and as necessary provides input to this document. E&S input is cleared by the ESGRM or by the ESRO for HRP.
- 6.106. Investment Review deliverables vary according to the project type (i.e., collaboration, co-development, co-development pilot), tier and E&S processing level as follows.
- 6.107. *Key E&S Deliverables: Tier I Collaboration:*
- Completed E&S review (LESS);
 - E&S Considerations for the legal agreements (LESS), cleared (ESGRM); and
 - Completed (LESS) and cleared (ESGRM) Summary of Collaboration or Co-Development Project (SCCP).
- 6.108. Tier I Collaboration projects do not have an IR stage. The LESS completes any E&S analysis, or reviews E&S inputs from consultants or the Client that remain outstanding after CN approval. The LESS reviews E&S content (if any) of the pre-investment agreement (if used), and details further E&S work in the legal agreement and prepares input for the Term Sheet. After clearance by the ESGRM, the LESS sends the E&S input to the PL.
- 6.109. The LESS prepares E&S input to the SCCP. For E&S Tier I (LRP) projects, the following standard language is used in the E&S section of the SCCP: "As part of its due diligence, and as mandated by IFC's Sustainability Policy, IFC will screen this project to assess consistency with IFC's Performance Standards. The IFC team will assist the client, as the final decision maker, in gaining a good understanding of IFC's Performance Standards and will provide recommendations for appropriate mitigation measures, wherever warranted."

6.110. Key E&S Deliverables: Tier II or III Collaboration and non-Pilot Co-Development:

- a. Completed E&S review (LESS);
- b. E&S Considerations for Investment Review (IR), including input to the legal agreement (LESS), cleared (ESGRM or ESRO for HRP);
- c. Confirmation of E&S risk level, and tiering; and
- d. Completed (LESS) and cleared SCCP (ESGRM or ESRO for HRP).

6.111. Tier II or III Collaboration projects have a two-stage approval: CN and then IR. The LESS completes any E&S analysis, or reviews E&S inputs from consultants or Client that remain outstanding after CN approval. The LESS then prepares E&S input to the IR approval document (describing E&S updates since CN approval), the Term Sheet and the SCCP. The SCCP is required within 60 days of legal agreement signing. The E&S Information of the SCCP describes IFC's proposed contribution to any necessary E&S studies or other actions required to identify, assess and mitigate E&S risks by the Client, so that the project activities will be developed in compliance with the Performance Standard by the Client (assuming the Collaboration or Co-Development leads to successful project development). The SCCP does not state the project's E&S risk level. The ESGRM or the ESRO (for HRP) clears the disclosure of the SCCP in the workflow.

6.112. Key E&S Deliverables: Tier II or III Pilot Co-Development:

- a. Completed E&S review (LESS);
- b. E&S Considerations for Investment Review (IR), including input to the legal agreement (LESS), cleared (ESGRM or ESRO for HRP);
- c. Confirmation of E&S categorization and tiering;
- d. Completed (LESS) and cleared ESRS (Category A or B projects) or SII (Category C or FI-1/2/3/ projects) and ESAP if necessary (ESGRM or ESRO for HRP); and
- e. Cost estimate for E&S support during project implementation (LESS).

6.113. Tier II or III Co-Development pilot projects have a two-stage approval: CN and IR. The LESS reviews E&S inputs from consultants or Client that remain outstanding after CN approval and undertakes E&S diligence following the procedures described in paragraphs 4.18 to 4.37 for investment projects, with technical input supplemented as necessary by external consultants' studies undertaken under the LESS' guidance. The LESS prepares E&S input to the IR approval document (describing E&S updates since CN approval) and to the Term Sheet. For E&S Category A or B projects, the LESS prepares the ESRS. For E&S Category C or FI-1/2/3 projects, the LESS prepares E&S input to the SII. For all E&S category projects, the LESS also prepares the ESAP if necessary. Preparation of the ESRS, E&S input to the SII and the ESAP follow the procedures for mainstream investment described in paragraphs 4.30 to 4.32. The SII and ESRS prepared for Upstream Co-Development pilot projects do include the E&S risk category. After clearance by the ESGRM or ESRO (for HRP) of the IR approval document input, Term Sheet, SII/ESRS and ESAP, the LESS sends this input to the PL.

Tier II or III: Investment Review – Approval Stage

- 6.114. Following completion of the IR approval document, the ADM Decider may wish to call a formal Investment Review Meeting (IRM). The LESS attends to answer any questions the investment committee may have on the E&S aspects of the proposed project. For HRPs, the ESRO is invited to participate, seeking to verify that the team and committee fully understand the E&S risks and any eventual policy challenges in the project, and their operational/ financial/ reputational implications. The CESRM decides on the attendance by the ESRO.
- 6.115. After the IR approval document is finalized as necessary taking account of direction received from IRM, the PL initiates IR workflow. The ESGRM or the ESRO (for HRPs) clears E&S content of the IR approval workflow as an ADM Technical Reviewer within three business days of receipt. If the IR workflow is approved despite ESGRM or ESRO objections, the ESGRM/ESRO may escalate to the Escalation Decider, and ultimately decision may be escalated per Escalation Procedure (Section VIII).

- 6.116. *Confirmation of E&S Terms:* After IRM, the CnC terms of engagement, including on E&S matters are finalized with the Client. The LESS communicates E&S requirements to the Client in co-ordination with the PL, and if directed by the IRM revises draft disclosure documents.

Commitment

- 6.117. This processing stage refers to the preparation of the legal agreement with the Client, approval of the agreement in Legal Agreement Workflow and IFC and the Client's signature of the legal agreement. The nature of the legal agreement varies according to the CnC engagement and could be a Collaboration Letter, a Collaboration Agreement, or a Joint Development Agreement (pilot or non-pilot).
- 6.118. The Upstream legal agreement is negotiated with the Client by the PL. The LESS, having confirmed that the proposed use of proceeds has not changed, reviews the E&S section of the legal agreement which should be closely aligned with the E&S terms previously confirmed with the Client. The agreement describes the E&S scope of work that each of IFC and the Client will undertake, Client's E&S reporting, IFC's disclosure obligations relating to the project, E&S support that IFC will offer and associated fees and makes reference to the Sustainability Framework. Joint Development Agreements for CnC pilot projects include the ESAP (if applicable) and an ESAP status monitoring template, to be completed annually by the Client and returned to IFC.
- 6.119. The ESGRM or the ESRO (for HRP) clears the legal agreement workflow. The PL prepares the Legal Cover Memo (LCM).
- 6.120. Following signature of the CnC legal agreement the LESS starts to implement the IFC E&S scope of work agreed at the CN or at IR, supported as necessary by the RIL or ESRO (for HRP).

Disclosure

- 6.121. Public disclosure of the SCCP for non-pilot CnC projects, or of the SII, ESRS and as required the ESAP for pilot CnC projects is required within 60 days of signature of the first CnC legal agreement (as described in paragraphs 6.111 and 6.113). Signature of pre-investment agreements does not trigger a disclosure requirement.
- 6.122. Following initial disclosure, as E&S diligence progresses, the Client and IFC will publish information such as Environmental and Social Impact Assessments and supporting or other studies that are relevant to the identification and proposed management of E&S risk and impacts of the project, as mandated by Access to Information Policy paragraph 41.
- 6.123. The E&S content of the disclosure is prepared by the LESS, cleared by the ESGRM or by the ESRO for HRP and sent by the LESS to the PL as described in paragraphs 6.104 to 6.113.

Disbursement

- 6.124. Following Commitment, and before funds are transferred to a counterparty in a cost-sharing CnC project, the PL prepares the Disbursement Memo (DM). The DM stipulates the funding source(s) and disbursement amount, any conditions precedent to the disbursement, any E&S or integrity issues specific to the disbursement, etc. Multiple DM may be processed for each CnC project, in line with the signed agreement, as indicated in the CnC procedures.
- 6.125. Processing of the DM requires that the CnC legal agreement and LCM are completed and that conditions precedent to disbursement are satisfied. The LESS confirms that E&S conditions precedent are met, and if so, the disbursement workflow is cleared by the LESS or the ESRO for HRP.
- 6.126. If E&S conditions precedent are not satisfied, the LESS discusses the disbursement request with the PL. If the PL wishes to proceed with disbursement, the E&S conditions must be waived, and the LESS prepares the E&S waiver justification and submits it to the ESGRM for review. For HRP, the ESGRM considers whether an E&S Material Waiver is required. If so, the ESGRM refers the waiver justification to the ESRO for clearance. All other E&S Waivers (non-material waivers for all projects and all waivers for projects which are not tagged as HRP) are cleared by the ESGRM.

Supervision

- 6.127. *E&S Oversight of the CnC Project:* The LESS leads the E&S component of the CnC process, therefore has a lead role in preparation or review of E&S Terms of References (ToR) for work needed to develop the project, reviews consultants' proposals, recommends consultants, manages consultants' work, reviews consultants' reports etc., all as described in the CN, IR and CnC legal agreement.
- 6.128. *Reporting within IFC:* CnC projects are subject to a light-touch supervision requirement. A Lite Project Supervision Report (L-PSR) is prepared by the PL. The LESS populates the E&S section of the L-PSR, adding discussion of E&S risks and E&S issues that requiring management attention. Supervision is undertaken on a semi-annual basis, covering two reporting cycles of January 1 to June 30, and July 1 to December 31. The E&S content of the L-PSR is cleared by the ESGRM or by the ESRO for HRPs.
- 6.129. E&S oversight of CnC pilot projects includes ESAP status review and may be supplemented by virtual or in-person supervision visits which can include updates to contextual risk considerations, and meetings with the client and other project stakeholders.
- 6.130. *Droppage or Termination:* If the project does not move forward as planned, then the PL may drop the project by completing a Droppage Note and obtaining its clearance through the workflow. Similarly, if project conditions change to the extent that the project is no longer viable for IFC, the PL may terminate the project by completion and workflow clearance of a Termination Note.
- 6.131. In the event of Droppage or Termination, the LESS prepares E&S input to the Droppage or Termination note if relevant. This input is cleared by the ESGRM or by the ESRO for HRPs.

Completion

- 6.132. At CnC project completion, the LESS provides the E&S inputs to the Project Completion Note (PCN), to capture and analyze key risks and findings of activities implemented during the project and make recommendations for any subsequent investment projects under consideration. The ESGRM (or the ESRO for HRPs) reviews and clears the E&S inputs to the PCN. The LESS sends the E&S inputs to the PL to enable relevant E&S matters to be included in the PCN.
- 6.133. *Key E&S Deliverables CnC non-pilot and CnC pilots:*
- a. Completion E&S input to the PCN for internal documenting purposes (LESS).
 - b. Completion E&S Risk Memo for medium and high risk projects, prepared by the LESS and cleared by ESGRM.
- 6.134. *Conversion of CnC Pilot to an Investment Project:* If upon completion the CnC project is converted to a mainstream investment project, further E&S processing follows the ESRP for new investment business.
- 6.135. *Financial Close with other Investors or Lenders:* If the project reaches financial close with investors /lenders other than IFC and IFC does not increase its stake IFC may decide to sell or retain its equity. At financial close, the LESS prepares and the ESGRM clears a Completion E&S Risk Memo for medium and high risk projects. After clearance, the LESS forwards the Completion E&S Risk Memo to the ESRO for information purposes. The ESRO can add recommendations to the Completion E&S Risk Memo for documentation and for consideration of a future investment.
- 6.136. However, if IFC retains its equity, then the project becomes and is processed as a mainstream equity deal. The ESRP for Portfolio and Supervision in Investment Operations (Section V) applies.
- 6.137. *Project development ends.* If the CnC initiative is never developed into a mainstream investment, IFC loses its contributions to the development costs / early-stage equity which are written off and the project is closed. For medium and high risk projects, the LESS prepares and files the Completion E&S Risk Memo for IFC record.

VII. Responding to Significant Adverse E&S Events

- 7.1. *Introduction:* Despite significant efforts to manage environmental and social risks associated with IFC projects, adverse incidents may occur. Timely reporting and escalating such incidents (significant E&S events) are critical steps to promote timely and effective actions by IFC. When in doubt, the E&S Specialist notifies the Project Team of the incident.
- 7.2. *Significant Adverse E&S Events:* A Significant Adverse E&S Event is any event related to an IFC project with material impact on project workers, project affected communities or the environment. Examples of such adverse events include fatalities, serious accidents, and injuries; social impacts from labor influx; sexual assault, sexual exploitation or sexual abuse (SEA) or other forms of gender-based violence (GBV); major environmental contamination; loss of biodiversity or critical habitat; loss of physical cultural resources; and loss of access to community resources. Significant Adverse E&S Events are classified as Severe and Critical Adverse E&S Events.
- 7.3. *How is IFC informed about a Significant Adverse E&S Event?* IFC can be informed or become aware about a Significant Adverse E&S Event at any time through any channel. Sometimes IFC becomes aware of the significant event several weeks or months after the event. However, the same procedure is followed.
- 7.4. The Project Team, specifically the Project Investment Officer (IO) or advisory Project Lead (PL) and the Lead E&S Specialist (LESS), may be notified of a Significant Adverse E&S Event at any time through any channel, including other IFC staff, consultants or IFC contractors, IFC Client, Client's workers or contractors, affected community members, or by communication through emails from external parties, media reports (including social media), civil society organizations (CSOs), or the CAO. The Project Team may also identify such significant events through site appraisal or supervision visits, or review of project documents.
- 7.5. On becoming aware of a Significant Adverse E&S Event, IO/PO and LESS follow these five key principles informing IFC's course of action.



Notify –Who and When?



Classify - How serious?



Investigate: What happened?



Respond:
Remedy, new measures?



Follow-up: Was response effective?

Note that any incident involving privacy concerns or requiring ethical, survivor-centered, and safe approaches should only involve information about where/to whom the incident was reported, what type of incident has been reported and whether the person who experienced the alleged incident was referred to appropriate services. IFC Project Teams should not undertake any investigation of such incidents.

This procedure does not apply to incidents that are not project related. For example, in the case of a natural disaster, military action, political activity impacting project workers or community members.

VIII. Escalation of Decision

Purpose and Applicability

- 8.1. Defines escalation of decision making where there are operational-level differences of opinion between the Project Team and CES (for HRP), or between investment officers and E&S specialist within the Project Team (for Non-HRP), which prevent transaction processing progress.
- 8.2. The escalation occurs off-line (i.e., via an e-mail request), and the process is the same for all tiers. The decision-makers have five (5) business days to attempt to resolve the difference.

Procedure – Regional Projects

- 8.3. *Escalation – HRP.* If there is a disagreement between the LESS/IO and the ESRO with regards to a HRP, the decision is escalated to the ESGRM, the Regional Industry Manager and the CESRM. If there is no agreement, the decision is escalated to the Regional Director, Regional Industry Director and CES Director. If they do not agree, the decision is further escalated to the Regional Vice President (RVP) and the Vice President, Risk and Finance (CRFVP). If the Vice Presidents are unable to resolve the difference, either may escalate to the T3PC for final decision (see paragraph 8.7).
- 8.4. *Escalation – Non HRP.* If there is a *disagreement* between the LESS and the IO for non-HRP, the decision is escalated to the ESGRM, the Regional Industry Manager and the CESRM. If there is no agreement, the decision is escalated to the Regional Director, Regional Industry Director and CES Director. If they do not agree, the decision is further escalated to the RVP and the CRFVP. If the Vice Presidents are unable to resolve the difference, either may escalate to the T3PC for final decision (see paragraph 8.7).

Procedure – Global Projects

- 8.5. *Escalation – HRP.* If there is a disagreement between the LESS/IO and the ESRO with regards to a HRP, the decision is escalated to the CESCS, the Global Sector Manager and the CESRM. If there is no agreement, the decision is escalated to the Global Industry Director and CES Director. If they do not agree, the decision is further escalated to the Vice President, Industries and the CRFVP. If the Vice Presidents are unable to resolve the difference, either may escalate to the T3PC for final decision (see paragraph 8.7).
- 8.6. *Escalation – Non HRP.* If there is a disagreement between the LESS and the IO for non-HRP, the decision is escalated to the CESCS, the Global Sector Manager and the CESRM. If there is no agreement, the decision is escalated to the Global Industry Director and CES Director. If they do not agree, the decision is further escalated to the Vice President, Industries and the CRFVP. If the Vice Presidents are unable to resolve the difference, either may escalate to the T3PC for final decision (see paragraph 8.7).
- 8.7. If differences in paragraphs 8.3 to 8.6 cannot be resolved within five (5) business days at the Vice President level, then the decision is referred to the T3PC for final decision.
- 8.8. If the T3PC directs a course of action that is contrary to the advice of CES, the ESRO (for HRP) or LESS (for Non-HRP) communicate and record “Not Agree and Continue.”
- 8.9. The ESGRM and Regional Industry Manager or Global Portfolio Manager document the final decision-making process and the final decision in the comments section of the relevant workflow.

IX. Document and Record Keeping

- 9.1. Properly keeping and maintaining documents and records in IFC's official repositories is a critical task in IFC's operations. It enables good project management and increased efficiencies in project processing and teamwork, and supports the maintenance of institutional knowledge, facilitates project handover, and allows for internal reviews and audits.
- 9.2. Upon receipt of a PDS-Concept to provide the E&S considerations, the RIL⁴⁶ creates a new folder for the project under the respective country folder and with a standardized sub-folder structure. The project folder follows a specific nomenclature including the project name and number.
- 9.3. After the PDS-Concept is approved, the ESGRM inputs the E&S team at the Partner level in the system and grants the E&S regional and CES teams access to the project folder following the system access classification (i.e., official, confidential and strictly confidential). The ESRO inputs the CES team in the system. The RIL ensures that all E&S documents available at PDS-Concept are properly filed.
- 9.4. The LESS ensures that all E&S-related documents received and produced throughout the project cycle are filed in a timely manner following the respective folder structures at either Project or Partner level (for New Business and Portfolio, respectively). E&S documents may include Client documentation; key correspondence; support documents; E&S Disclosure documents (i.e., ESRS/SII and ESAP); historic and final versions of the key E&S deliverables⁴⁷ created throughout the project cycle. The LESS shares the hyperlink to the project folder with the ESGRM and the ESRO (for L2P and HRP). The LESS ensures that final cleared versions are properly named and filed.
- 9.5. For HRP, the LESS notifies the ESRO upon uploading new key E&S documents that are necessary for ESRO review and clearance. For some stages (e.g., Board Paper and Legal E&S Clauses), the LESS notifies the ESRO via the workflow.
- 9.6. The LESS verifies that the disclosed ESRS/SII and ESAP and the relevant Client documents are correctly and fully displayed and uploaded in the Disclosure portal, during the Disclosure at Appraisal and for any updated Disclosure during Supervision.
- 9.7. When the documents contain personal information, the LESS follows the WBG Personal Data Privacy Policy for proper handling and storage.
- 9.8. During the project cycle, the ESGRM, LESS and/or ESRO update any changes to the Project Team in the system, in a timely manner.
- 9.9. Regular monitoring of document management, record keeping and E&S Disclosure updates is conducted by CES Quality Assurance (QA) team on a regular basis. The results are shared with CES and regional E&S teams through periodic management information reports.

X. Effective Date

January 21, 2025

XI. References

1. [IFC Policy on Environmental and Social Sustainability](#)
2. [IFC Performance Standards on Environmental and Social Sustainability](#)

⁴⁶ Document management and record keeping accountability is with the RIL (or LESS or ESRO or ESGRM as specified in this Section), even though the task is delegated to the Administrative and Client Services (ACS).

⁴⁷ Refer to the "Key E&S Deliverables" paragraph in each sub-section of the ESRP.

3. [IFC Access to Information Policy](#)
4. [IFC/MIGA Independent Accountability Mechanism \(CAO\) Policy](#)

