

July 11, 2018

Mr. Osvaldo L. Gratacós  
Compliance Advisor Ombudsman  
International Finance Corporation  
2121 Pennsylvania Avenue, N.W.  
Washington DC 20433

*Subject: Response to CAO Advisory Memos on Supply Chains*

Dear Mr. Gratacós:

On behalf of IFC Management, we would like to thank CAO for its advisory analysis and recommendations on how the Corporation can further improve its approach to supply chain risk management and due diligence. CAO's Advisory function can play a role in helping IFC improve its environmental and social (E&S) practices, and we look forward to working with your team to further enhance our collaboration in the years to come.

Our teams engaged closely with yours during the development of the three memoranda that make up your most recent publication on supply chains, and have carefully reviewed the final report. There is growing attention and expertise focused on supply chain risk management at IFC - particularly for investments in agribusiness – and your analysis will help IFC improve supply chain risk management through increased capacity and implementation. In the attached annex, IFC details how it plans to strengthen its approach, building from CAO's recommendations as well as from IFC's own broad experience across many sectors and many regions.

IFC plans to raise awareness, amongst both investment and E&S staff, of supply chain risks and where IFC and its clients can further influence risk management across supply chains. IFC will do this through internal training and raising awareness amongst a broader group of staff covering sectors where supply chains are relevant – not just agribusiness. This has already begun, with a well-attended event in May when our approximately 200 E&S staff were in Washington for a learning event. While awareness improves, IFC is also developing a “tip sheet” to help staff quickly identify or “red flag” likely supply chain risks during investment due diligence.

It is important to clarify a point related to CAO's analysis and findings, and what the Performance Standards (PSs) speak to in terms of a client's relative control and influence over its supply chain. Companies rarely have absolute control of their supply chain,

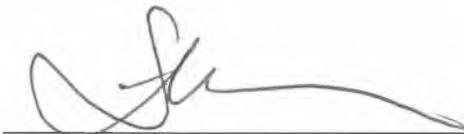
particularly when the firm is a regional company (not a multinational), or the client's business places it in the middle of a larger supply chain. The PSs do not require full conversion of supply chains, and this is deliberate in recognition of the complexity and varying scope of control in most supply chains, and the acknowledgement that 100 percent conversion is highly improbable.

Nonetheless, there are a number of proactive initiatives IFC is already undertaking worth noting, including the Global Map of Environmental and Social Risks in Agro-Commodity Production (GMAP), the Global Trade Supplier Finance (GTSF) initiative, and GeoDesk. The GMAP pilot program helps agri-traders and their trade finance banks to quickly identify whether a commodity from a particular country is likely to be associated with labor and biodiversity issues in production. The GTSF initiative provides suppliers with a financial incentive to improve environmental and social performance. GeoDesk makes use of geospatial and other data to map contextual risks in support of IFC's due diligence.

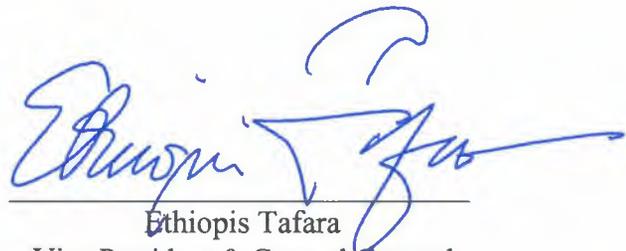
IFC wants to enhance CAO Advisory initiatives, and so invites CAO to work with IFC to identify topics of subsequent focus. Enhanced Advisory practices should also allow for a broader sampling of cases for CAO analysis and advice, compared to the relatively small sample size of cases in this engagement. IFC believes CAO's Advisory work can also benefit from input derived from external experience and practices within the private sector and other financial/development institutions, to benchmark IFC's approach and practices.

IFC would like to acknowledge the collaborative approach followed throughout the process of developing these advisory memos, and hope that your team also appreciated the constructive engagement from our teams to help make the finished product insightful and useful to IFC's operations. We look forward to building on this operating model in the future.

Sincerely,



Stephanie von Friedeburg  
Chief Operating Officer



Ethiopis Tafara  
Vice President & General Counsel

## **Annex: Detailed IFC Management Response to CAO Advisory Memos on Supply Chains**

### **IFC Response to Specific CAO Recommendations**

The following aspects of the Advisory recommendations resonated with our own perspectives on what more needs to be done:

<b>CAO Advice</b>	<b>IFC Perspective</b>
<p><b>Develop a guide with key questions ("thinking steps")</b> to be asked by environment/social and investment staff in different stages of IFC's business cycle.</p>	<p>We agree that additional guidance to specialists, shared with the "deal" team, would be helpful. During the next 12 months, it is proposed that a basic "tip sheet" be prepared by environmental and social and IFC industry specialists populated with key supply chain related red flag questions and considerations. If a version can be developed for external audiences and donor funding identified, we will also do that.</p>
<p><b>Train staff on supply chain analysis</b>, so that they are knowledgeable about the appropriate tools and resources available to address risks raised throughout the project cycle.</p>	<p>IFC does not believe all staff need this training and awareness raising, but in general we agree that specialists and relevant investment officers would benefit from a more consistent and in depth understanding of how supply chains are managed (e.g. procurement, oversight, contracting, etc.) by clients as a pathway to achieving our PS requirements and expectations. We propose to structure a series of internal webinars (Learnscapes) to raise awareness and knowledge in this regard. These webinars would be jointly formulated and hosted by the Environment and Social Department and designated industry specialists, and would seek to bring external perspectives on tools and approaches used in the market. Subsequently, more detailed training will be considered if necessary and where gaps still remain. In addition, IFC will continue to make more systematic use of new tools that have been developed such as GeoDesk, and other GIS-based risk mapping mechanisms.</p>
<p><b>As part of the next consultative process for review of the Performance Standards, IFC should</b></p>	<p>At such point as the existing PSs are subject to further review, IFC will consider which aspects deserve update with regard to supply chains. In the interim, a possible surrogate where relevant is for clients to rely</p>

CAO Advice	IFC Perspective
<p>include specific guidance regarding supply chains in all Performance Standards (beyond the current references in PS1, PS2, and PS6).</p>	<p>on internationally approved certification schemes. IFC was very engaged in the inception of several multi-stakeholder roundtables establishing commodity certification schemes through Advisory Services with participation from environmental, social and investment staff.</p>
<p><b>Develop an internal reference system which includes:</b> (a) a comparison of voluntary standards to IFC PSs; (b) assesses the quality and integrity of certification systems (auditing, accreditation of auditors, complaint procedures, etc.); and (c) assesses the quality of sectoral and regional implementation of certification systems.</p>	<p>IFC agrees that the adequacy of the auditing process associated with certification and obtaining a more systematic understanding of how IFC's PS's compare to leading certification standards is needed. However, with respect to side by side comparisons of different standards with IFC's PS's, there is no need to develop a new document as that is already available and kept up to date by external parties. See "Standards Map" <a href="http://www.standardsmap.org/identify">http://www.standardsmap.org/identify</a>. Additionally, as per the PSs, where widely accepted certification standards are relevant (Forest Stewardship Council, Roundtable for Sustainable Palm Oil, etc.), IFC's client is required to either be certified or develop a time-bound action plan to achieve such. However, IFC agrees that while certification can be a useful indicator of commitment to sustainability, it does not replace the requirement to be compliant with the full range of IFC's PSs where the provisions of such often exceed that standard.</p>