

Leveraging IFC's Influence to Enhance Environmental and Social (E&S) Outcomes

CAO Advisory Insight Series:
Strategic E&S Topics

CAO  COMPLIANCE
ADVISOR
OMBUDSMAN

The Independent Accountability Mechanism for IFC & MIGA

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Contents

Executive Summary	6
About this Advisory Note	14
1. What is Leverage?	16
1.1 The Link Between Leverage and Remedy	18
1.2 Circumstances Where Insufficient Leverage Contributes to Problems: Lessons from CAO Cases	18
2. The Foundations of IFC’s Leverage	22
2.1 Thorough Upfront E&S Risk and Impact Assessment	23
2.2 Adaptive Management, Built on Robust Due Diligence.	25
2.3 Thorough Assessments of Client Capacity and Commitment	27
2.4 High-quality E&S Action Plans (ESAPs) for Effective Leverage	28
2.5 Maintaining Leverage Through to the Time of Responsible Exit	30
3. IFC’s Current Core Instruments for Increasing Leverage	34
3.1 Relationship-based Leverage and Repeat Business.	35
3.2 Contractual Provisions	36
4. Leverage Gaps	40
4.1 Not Employing Available Leverage	41
4.2 Disbursing Investments in a Single Tranche.	43
4.3 Granting Waivers or Extensions Without Reconfirming E&S Commitments to Pending Actions	44
5. Enhancing IFC’s Approach to Leverage: Expanding the Toolbox ...	46
5.1 Financial Incentives—Positive and Negative	47
5.2 Syndication and Co-financing Leverage	55
5.3 Board Representation and Governance Leverage	56
6. Designing and Implementing a Unified Leverage Strategy	58
7. Summary of Recommendations and Conclusion	64
7.1 Leverage Enables Risk-taking	65
7.2 Recommendations to Increase IFC’s Leverage for E&S Outcomes	66
7.3 Conclusion	73
Appendix A. Methodology	74
Appendix B. Details of CAO Cases Presented in Table 2	80

Executive Summary



Leverage is critical to IFC’s ability to fulfill the commitments of its Sustainability Policy. By applying the Environmental and Social (E&S) Performance Standards to clients and using its influence to secure client compliance, IFC advances its policy objectives of promoting sustainable development and managing E&S risks in ways that avoid harm to people and the environment. Strong leverage enables IFC to prevent harm and obtain remedial action; weak leverage limits its capacity to achieve these outcomes.

This Advisory Note defines leverage as IFC’s ability to influence its clients to take the necessary actions to meet its environmental and social (E&S) requirements.

Multiple Compliance Advisor Ombudsman (CAO) compliance investigations have observed that IFC often faces difficulties in securing client adherence to the Performance Standards when it has limited leverage, which in turn constrains IFC’s ability to address identified E&S risks effectively. Also, in the context of Management Action Plans (MAPs), IFC has frequently noted that a lack of leverage has hindered the development implementation of remedial actions in response to CAO compliance investigation reports. This Advisory Note explores this “leverage deficit” and proposes ways in which IFC can strengthen and better apply its leverage over clients to achieve E&S risk and impact management

throughout the lives of its investments and fulfill its role and responsibilities as set out in its [Policy on E&S Sustainability](#).

CAO employed a mixed methods approach to this analysis, drawing on a thorough desk review of project documentation (refer to Box 1), interviews with IFC staff and external experts, and review of documents providing relevant operational guidance and innovative practices at other financial institutions. CAO engaged with IFC throughout the process, including via regular meetings, two workshops, IFC review of two draft reports, and multiple meetings with E&S specialists for input and feedback.

Box 1. Project review

CAO carried out a project review that involved an in-depth examination of IFC project documentation and operational guidance.¹ This comprehensive review aimed to identify patterns related to IFC's use of leverage, as highlighted in previous CAO compliance investigations. By integrating insights from these various sources, the desk review provided a foundation for understanding how leverage is applied within IFC projects in the context of E&S risk management.

Central to the analysis was the evaluation of E&S project documents for projects that had been the subject of CAO complaints. Although these projects represent only a small subset of IFC's broader portfolio, their review offered valuable lessons on why certain projects attract complaints and how future negative impacts might be mitigated. The findings from this analysis informed CAO's recommendations for strengthening IFC's leverage practices and preventing related harm.

The table below briefly describes the sample of IFC investments reviewed. For a detailed methodology, refer to Appendix A.

Subset	Criteria	Number of Projects	Overlap	Date Range
1 – CAO Cases	CAO complaints received between fiscal year (FY)18-24, post-2012 approval, passed assessment	26	7 overlap with Subset 3	CAO complaints received between FY18-24 ²
2 – Expanded Portfolio	Subset 1 + 13 good practice + 12 gap-fill projects	51	Includes Subset 1 projects	IFC projects approved since the adoption of the FY12 Sustainability Framework ³
3 – Compliance Investigations	Published compliance investigations since FY20	15	7 overlap with Subset 1/2	Compliance investigation reports published since FY20

CAO compliance investigations indicate a clear pattern: **IFC's influence wanes over the life of an investment as funds are disbursed. Yet it is in these later phases that leverage is often most needed to address ongoing or emergent E&S impacts and risks.** CAO cases demonstrate that when IFC does not use its leverage proactively in response to E&S challenges, there is an increased risk that IFC will be non-compliant with its Sustainability Policy and that

clients will be in breach of their E&S obligations under the Performance Standards, leading to adverse E&S impacts, and reputational and operational risks for both IFC and its clients. IFC is left with limited means to secure client action to mitigate impacts or agreement on feasible remedial measures.

- Subject to availability, CAO reviewed the following IFC documents: Board Reports, Environmental and Social Review Summaries, Environmental and Social Review Documents, Environmental and Social Risk Ratings, client legal requirements (including Loan Agreements, ESAPs, Shareholders Agreements, as applicable), Investment Review Documentation, development results tracking entries, Project Supervision Reports, IFC's documentation of Broad Community Support, and documentation of E&S peer reviews, disbursement checklists, Conditions of Disbursement checklists, Annual Monitoring Report Reviews, Waiver memos, Exit memos, IEG Reviews, and relevant IFC/Client correspondence; and client documents: Environmental and Social Impact Assessments, Action Plans (including, as relevant, Resettlement Action Plans, Indigenous Peoples Development Plans, etc.), Annual Monitoring Reports, Sustainability Reports, Disbursement Requests, Waiver Requests.
- One case in this sample has a CAO complaint received in FY16 (before the FY18 cutoff). This case was added to the sample because IFC had invested in the corresponding project using both debt and equity instruments, which increased the diversity of the sample to resemble IFC's portfolio mix more closely therefore improving the applicability of CAO's recommendations.
- With the exception of one case as initial research demonstrated its merits as a positive example of IFC E&S risk management therefore CAO decided to keep it in the sample.

FINDINGS AND RECOMMENDATIONS

This Advisory Note outlines key steps for IFC to take in four areas to strengthen its use of leverage with clients for positive E&S outcomes:

1. Strengthening the foundations of IFC's leverage in due diligence
2. Closing the gaps in IFC's current leverage practice
3. Expanding IFC's toolbox for applying and maintaining its leverage
4. Formalizing and unifying IFC's strategy for leverage across all its investments.

CAO's analysis shows that IFC needs to take a more deliberate approach to building leverage and exercising it throughout an investment's life. More effective use of leverage is critical for IFC to deliver on its policy commitments, increase lending in complex and risky contexts, and implement the recently enacted IFC/MIGA [Remedial Action Framework \(RAF\)](#).⁴

CAO recognizes that leverage is inherently variable. IFC cannot achieve the same degree of leverage across all its investments, nor can it sustain a constant level of leverage throughout the lifecycle of an individual project. Instead, the use of leverage is dependent on level of E&S risk and fluctuates over the life of a project in response to factors such as market conditions and other contextual influences. Based on this understanding, this Advisory Note identifies practical ways IFC can meaningfully strengthen and more effectively apply its leverage during the investment cycle.

CAO's findings and recommendations in four key areas are summarized below and expanded on throughout the report. Section 7.2 in the final chapter provides further recommendations to increase IFC's leverage over project E&S outcomes.

1. STRENGTHENING THE FOUNDATIONS OF IFC'S LEVERAGE IN DUE DILIGENCE

CAO cases demonstrate that the strength of IFC's leverage during client supervision depends heavily on robust E&S due diligence and clear corresponding obligations to mitigate E&S harm that are agreed *before* the client and IFC commit to a project. In line with the Sustainability Policy, the breadth and depth of IFC's E&S due diligence should be commensurate with the operation's anticipated impact and risk. Weak E&S due diligence can result in IFC failing to identify material E&S risks and impacts. This, in turn, can lead to Environmental and Social Action Plans (ESAPs) agreed with the client that lack the specificity to set expectations around meeting project-relevant Performance Standards and undermine their effective enforcement. In addition, IFC's E&S due diligence needs to take into account its client's capacity and commitment to implement measures consistent with the Performance Standards.

When E&S due diligence foundations are strong, IFC is better placed to implement an adaptive management approach as project circumstances evolve during its supervision phase. Timely, accurate, and comprehensive reporting by both the client and IFC is also integral to effectively adapting and maintaining adequate leverage as projects move from pre-investment due diligence to supervision.

In 13 out of 15 recently published CAO compliance investigations (Subset 3), CAO found IFC's investment E&S risk assessment inadequate or lacking, and not commensurate with the project's level of E&S risk and impact. Attempts to manage previously unidentified risks and impacts proved more difficult after the investment was already committed, and issues often remained unresolved. CAO compliance investigations indicate that outstanding ESAP items at the time of

⁴ The IFC/MIGA Board of Directors approved the [IFC/MIGA Remedial Action Framework \(RAF\)](#) in 2025. The RAF aims to provide a structured approach to addressing harm arising from E&S impacts of IFC/MIGA-supported projects focusing on prevention, preparedness, access to remedy and contribution to remedial action.

exit are not uncommon,⁵ particularly where IFC's ability to achieve compliance or resolve harm is limited by insufficient leverage, and in situations where client capacity or commitment is weak.

CAO RECOMMENDS IFC TAKE THE FOLLOWING KEY STEPS TO ADDRESS IDENTIFIED GAPS:

- Diligently implement the recently strengthened provisions of the IFC E&S Review Procedures (ESRP) related to E&S impact and risk identification and assessment. Conduct a formal review after two years to ensure implementation.
- Integrate an assessment of client capacity into project appraisal and provide targeted support as needed.
- Strengthen quality assurance for ESAPs across investments and regions to ensure that they address the key impacts and risks, and that ESAP provisions are clear, measurable, costed, and linked directly to enforceable contractual requirements.

By conducting thorough and timely due diligence, commensurate with an investment's E&S impacts and risks, IFC puts itself in a better position to establish the necessary leverage points at the outset to maintain policy compliance and retain the tools to apply the RAF effectively if remedial actions become necessary.

2. CLOSING THE GAPS IN IFC'S CURRENT LEVERAGE PRACTICE

CAO's review of recently published compliance investigations points to multiple instances where IFC did not adequately use available contractual leverage⁶ with a client over extended supervision cycles. Although the local context can influence IFC's decision not to exercise leverage in a given situation, the result has been client non-compliance with E&S performance requirements persisting over multiple years. These situations of protracted non-compliance led to E&S risks and their impact on local communities and the environment going unaddressed, as well as potentially signaling to clients that E&S requirements are negotiable and not a priority.

CAO's analysis also reveals how IFC has lost leverage over clients in different circumstances. For example, CAO reviewed complaints where IFC scheduled disbursements to be carried out in a single tranche, although the ESAP planned for client E&S actions over a longer time frame.⁷ In other cases, IFC granted clients waivers or extensions on specific E&S action items even though IFC considered the client's E&S performance weak reflected in internal E&S risk ratings that were unsatisfactory or partly unsatisfactory. IFC granted these waivers without a documented analysis of the potential impacts of the waiver on IFC's leverage and ability to ensure the risks in question can be adequately managed in future.⁸

An important source of IFC influence is the relationship that E&S specialists build with clients. A strong client relationship is fostered when IFC E&S specialists have time to support the client

5 Exits are defined as the termination of the financial relationship between IFC and its clients. Planned exits are a standard phase in development finance and occur when the client repays a loan, or in equity investments, when IFC sells its shares. Early exits occur when the client prepays its loan or when IFC cancels the loan or remainder of the loan. IFC's [Approach to Responsible Exit](#) covers active exits whereby IFC proactively and voluntarily decides to exit a project.

6 Contractual leverage describes the influence IFC can exert over a client through the legal terms of its investment agreements (for example, through covenants and conditions). These terms are described in further detail throughout this Advisory Note.

7 In 38 percent of debt investments in CAO's extended portfolio sample of 51 investments with and without CAO cases (11 out of 29), IFC structured the investment so that the entire loan was disbursed in a single tranche, rather than in stages linked to completion of critical ESAP actions. In 9 of these 11 investments, the ESAP had actions due after this first and only disbursement.

8 In Subset 1 (26 IFC investments with CAO cases), IFC granted 10 waivers for E&S issues. In some of these cases, IFC has clear, documented justifications for granting the waiver and assessed the risks of doing so. For instance, IFC granted a waiver for an ESAP action during a project's operational phase as construction was ongoing and the client had sufficient time to complete the action so the waiver would not carry additional risks. However, in 4 of these 10 cases in which IFC granted a waiver, it did so while the client's internal E&S risk rating was unsatisfactory or partly unsatisfactory. This omission was significant in some cases because once the project moved forward and funds were disbursed, it is unclear in the project documentation reviewed by CAO, whether the waived actions were completed.

with navigating E&S challenges or enhancing their E&S risk management practice. However, many IFC E&S specialists report being too stretched to spend meaningful time with clients that need such capacity support.

CAO RECOMMENDS IFC TAKE THE FOLLOWING KEY STEPS TO ADDRESS IDENTIFIED GAPS:

- Enable IFC E&S specialists to increase engagement with clients during implementation to build capacity and relationship-based leverage alongside contractual leverage.
- Ensure that all critical E&S mitigation measures are anchored in clear contractual client requirements.
- Strengthen internal systems, controls, and incentives in order to:
 - ▷ Avoid single-tranche disbursements for projects entailing significant E&S impacts and risks.
 - ▷ Apply leverage consistently when persistent non-compliance with IFC's Performance Standards is identified, avoiding situations where non-compliances remain unaddressed for multiple years. To this end, IFC should consider establishing internal indicators, such as client non-compliance over multiple supervision cycles, or the level of risk associated with missing ESAP actions, that trigger heightened oversight and reporting to senior management. This would disincentivize IFC project teams enabling persistent material E&S non-compliance.
 - ▷ Require explicit rationales, risk assessments, and strategies to manage client waivers and extensions to ESAP actions that justify and mitigate IFC's reduced leverage in these instances.

- Conduct a formal review of the use of these oversight systems after two years.

Addressing these gaps will reduce the likelihood that significant E&S impacts remain unmitigated, safeguard the institution's ability to implement the RAF effectively, and maintain the institution's credibility in enforcing its E&S requirements.

3. EXPANDING IFC'S TOOLBOX FOR APPLYING AND MAINTAINING LEVERAGE

IFC's use of leverage over clients in many investments has been largely limited to contractual mechanisms, most notably Conditions of Disbursement (CODs) and Conditions of Subscription.⁹ These core contractual levers are critical and can be effective in securing E&S actions tied to key milestones. However, they may not be sufficient to sustain influence over the life of an investment. CODs are most effective in the stages before disbursement, but, as CAO compliance investigation cases (Subset 3) show, once funds are released, the leverage they provide diminishes significantly.¹⁰ In practice, when IFC needs to address persistent or unresolved client non-compliances with the Performance Standards at a later stage in project implementation, its remaining options are often reduced to blunt measures such as accelerated repayment or initiating an exit.

These limitations underscore the importance of expanding the leverage toolbox to include instruments that can maintain or even enhance influence after initial disbursement, and after COD triggers are no longer available. A diversified set of tools can equip IFC with additional mechanisms for proportional, flexible responses to varying challenges related to a client's/project's/investment's E&S performance, thereby avoiding primary or exclusive reliance on CODs or extreme end-stage measures.

⁹ Conditions of Disbursement (CODs) are the set of conditions specified in a financing agreement that must be satisfied before IFC is obligated to disburse funds to the borrower. Conditions of Subscription are the same as CODs but for equity investments so must be satisfied before IFC is obligated to subscribe (purchase shares) to the company.

¹⁰ In half of the compliance investigation reports in Subset 3 related to debt investments (3 of 6), CAO found that IFC lost leverage once funds were disbursed (Refer to [Jordan: Masdar Baynouna](#), [Liberia: Salala Rubber Corporation](#), and [Myanmar: Myanma Awba Group Company Ltd.](#))

The options that follow illustrate the diverse range of leverage tools IFC could consider incorporating into its practice. Not all tools will be suitable or available for every project, as applicability depends on factors such as investment structure, sector, risk profile, and client capacity. However, all these tools are already in use in certain markets, and IFC could strengthen its guidance to project teams by clarifying which tools are available in which contexts. Further, IFC might explore adapting or introducing these tools in contexts where they have not yet been applied, in order to expand leverage options in future operations.

CAO RECOMMENDS IFC EXPLORE THE FOLLOWING KEY OPTIONS TO EXPAND ITS LEVERAGE TOOLBOX:

- *Financial incentives:* Where feasible, design performance-linked interest rate adjustments that reward strong E&S performance or penalize inadequate performance, taking care to avoid “greenwashing” or moral hazard.
- *Tools to enforce compliance:* Include indemnity and other provisions for recovering costs in contracts for investments with significant E&S risk that allow IFC to be reimbursed by clients for costs incurred in E&S risk management and mitigation. Consider including standard provisions for potential disclosure of any audits undertaken in this context. This approach would allow IFC to inform local stakeholders of audits and their outcomes in the context of citizen concerns or a complaint.
- *Instruments to enable remedy:* Incorporate mechanisms such as performance bonds, guarantees, funded escrow accounts, or other client set-asides in legal agreements to ensure resources are available to address harm or complete critical E&S actions, in line with the IFC/MIGA RAF. These tangible provisions can provide confidence that IFC and affected stakeholders will not bear the cost of remedy if client non-compliance occurs.

- *Transparency and disclosure requirements:* Enable public and community-level monitoring of ESAP implementation by disclosing up-to-date and comprehensive information. Work with clients to improve disclosure at the project level.
- *Syndication and co-financing leverage:* When IFC leads as arranger or anchor investor, it can embed robust E&S obligations in Common Terms Agreements, promote shared E&S advisers, and coordinate joint enforcement. The effectiveness of such agreements depends on lender alignment on E&S standards. Systematically applying strong leverage by a syndication of investors would help IFC preserve influence over its client, maintain contractual alignment, and coordinate joint enforcement of project E&S requirements.
- *Board representation/governance leverage:* Ensure IFC-nominated directors of client boards are well prepared to advance adequate E&S management and oversight structures in corporate governance, monitor the client’s E&S risk management strategy and practice, and support strategic oversight of remedial responsibilities in equity investments.¹¹

By expanding its leverage toolbox, IFC can deploy proportionate responses that reflect the nature and severity of anticipated E&S risks and unforeseen performance issues as they emerge, sustaining influence beyond the point of disbursement.

4. FORMALIZING AND UNIFYING IFC’S STRATEGY FOR LEVERAGE ACROSS ALL INVESTMENTS

IFC’s ability to work with clients to help them meet its Performance Standards depends on robust leverage planning from the outset. Implementing a unified strategy for each investment with material E&S impact and risks would enable IFC to embed multiple, mutually reinforcing leverage tools within the life cycle of any given investment and retain

¹¹ Refer to Freshfields Bruckhaus Deringer, Principles for Responsible Investment [PRI], UNEP FI, and the Generation Foundation, (2025), in [A Legal Framework for Impact](#) which argues that environmental, social, and governance (ESG) factors related to financial performance must be considered for investors to meet their fiduciary duties.

proportionate, practical, and timely responses to both anticipated and unforeseen risks. In practice, the relevant mix of tools will vary by project type, risk profile, sector, and client capacity.

CAO RECOMMENDS IFC TAKE THE FOLLOWING KEY STEPS TO DEVELOP AND IMPLEMENT A UNIFIED LEVERAGE STRATEGY:

- Make assessment of IFC leverage a standard step during appraisal, evaluating client commitment, capacity, investment E&S impact, and risk profile, as well as available instruments IFC can use to apply and maintain leverage.
.....
- Sequence technical E&S studies so that decision-critical information is available at the time of project approval and defined milestones.
.....
- Embed critical E&S requirements into contractual provisions.
.....
- Embed explicit and enforceable obligations to provide remedy into client legal agreements to make the RAF operational.
.....
- Document key elements of a leverage strategy for investments with material E&S risks in the investment decision book.
.....

A unified leverage strategy would help IFC to anticipate changing circumstances, maintain influence following disbursement of financing commensurate with project E&S impacts and risks, and encourage clients to meet their remedial responsibilities when impacts occur.

Steps to increase IFC’s leverage are timely given the plans to mobilize more private sector capital for development projects that IFC leads. Much of this World Bank Group strategy is directed at support for the private sector in fragile and conflict-affected countries. Where IFC operates in such challenging circumstances, leverage is especially critical. IFC’s commitment under the RAF to review its scope of leverage—a commitment that coincides with the pending update of the Sustainability Framework—provides an ideal opportunity for IFC to consider additional measures to enhance its leverage for improved E&S outcomes.

About this Advisory Note

The CAO Policy (para. 147) provides for CAO's Advisory function to advise IFC/MIGA and their Boards with the purpose of improving IFC/MIGA systemic performance on E&S sustainability and reducing the risk of harm to people and the environment.¹² Accordingly, CAO has developed this Advisory Note to identify areas for strengthening IFC's approach to and practices for leverage. Leverage is defined here as *IFC's ability to influence its clients to take the necessary actions to meet its E&S requirements*.¹³

Based on its 25-year experience as the [accountability mechanism](#) for IFC and the Multilateral Investment Guarantee Agency (MIGA), CAO has unique insights into the strengths of IFC's E&S risk management practices, as well as into areas where improvements are needed.¹⁴

This Advisory Note addresses challenges and opportunities with respect to IFC's leverage over clients, based on extracting lessons from IFC investments.¹⁵ Additionally, CAO conducted interviews with IFC staff, external experts, and reviewed international good practice. It is important to note that it is unknown to what extent the issues found within these samples are prevalent in IFC's overall portfolio.¹⁶ As such, this Note does not set out to provide a comprehensive assessment of leverage within all of IFC's operations. Rather, it aims, first, to identify patterns in CAO cases and relevant non-CAO cases related to IFC's past and current handling of leverage to improve E&S outcomes, acknowledging progress and offering methods for improvement; and second, to propose ways to expand IFC's toolbox with respect to leverage to improve E&S outcomes.

Table 1. IFC investments sampled for analysis

Subset	Criteria	Number of Projects	Overlap	Date Range
1 – CAO Cases	CAO complaints received between fiscal year (FY)18-24, post-2012 approval, passed assessment	26	7 overlap with Subset 3	CAO complaints received between FY18-24 ¹⁷
2 – Expanded Portfolio	Subset 1 + 13 good practice + 12 gap-fill projects	51	Includes Subset 1 projects	IFC projects approved since the adoption of the FY12 Sustainability Framework ¹⁸
3 – Compliance Investigations	Published compliance investigations since FY20	15	7 overlap with Subset 1/2	Compliance investigation reports published since FY20

For a detailed methodology, refer to Appendix A.

¹² [CAO Policy](#) para. 147 further stipulates: CAO's advisory work provides insights and recommendations on broader E&S issues relevant to IFC's and MIGA's work by drawing on CAO experience addressing complaints and good international practice.

¹³ The [IFC Sustainability Framework](#) (2012) delineates the roles of IFC and its clients. It includes the IFC [Performance Standards](#), whose provisions are binding on clients, the [Policy on E&S Sustainability](#) (referred to as the Sustainability Policy), which delineates IFC's commitments, and the [Access to Information Policy](#), which defines the information IFC makes publicly available.

¹⁴ CAO focused this Note on IFC alone as leverage works differently in MIGA's business model than it does in IFC's.

¹⁵ See methodology for a description of CAO's samples, Appendix A.

¹⁶ CAO draws insights from its case experience in compliance and dispute resolution. The underlying projects often form too small a sample from which to draw statistically relevant conclusions. They do represent, however, a purposeful sample that can shed light on specific questions, as all these projects have in common that they later attracted complaints from local project-affected people related to IFC's E&S performance.

¹⁷ One case in this sample has a CAO complaint received in FY16 (before the FY18 cutoff). This case was added to the sample because IFC had invested in the corresponding project using both debt and equity instruments, which increased the diversity of the sample to resemble IFC's portfolio mix more closely therefore improving the applicability of CAO's recommendations.

¹⁸ With the exception of one case as initial research demonstrated its merits as a positive example of IFC E&S risk management therefore CAO decided to keep it in the sample.

1. What is Leverage?



Leverage—defined here as IFC’s ability to influence its clients to take the necessary actions to meet its E&S requirements¹⁹—plays an integral role in enabling IFC to achieve its E&S objectives, which are a core component of its broader development mandate.²⁰ Since 1998, IFC has taken proactive steps to manage E&S risks and improve E&S outcomes throughout its investments.²¹

IFC’s role under its Sustainability Policy is different from that of the client, which bears primary responsibility for E&S performance of IFC-financed projects. Although IFC does not implement projects directly, it is responsible for ensuring its clients meet the Performance

Standards by influencing project design,²² integrating E&S requirements into project management plans and legal agreements and pursuing corrective actions when needed. Box 2 below summarizes how IFC uses leverage to support the World Bank Group’s mission.

Box 2. From Policy to Practice

Addressing E&S impacts is central to achieving sustainable development, as embedded in the World Bank Group’s mission to end extreme poverty and boost shared prosperity on a livable planet. IFC’s Sustainability Policy provides the operational framework through which IFC integrates E&S risk and impact management into its investments, enabling IFC to contribute directly to this mission.²³ Under this policy, IFC commits only to finance projects expected to meet its Performance Standards within a reasonable period of time and to work with clients to restore compliance when problems arise. To safeguard affected people and the environment, IFC must have and use different forms of leverage: contractual, financial, and relationship-based.

Without effective E&S risk and impact management, development projects can externalize significant costs onto local communities and the environment.^a Unlike business risks that investors voluntarily assume, project-affected people have little or no choice in their exposure to such risks. For some, the impacts can be particularly costly due to poverty, reliance on natural resources for their livelihoods, and/or limited capacity to absorb or recover from harm.^b

- a. Note: CAO provides examples of the cost that IFC projects with weak E&S performance can impose on people and the environment in its 2023 Advisory Note, “[Insights on Remedy: The Remedy Gap Lessons from CAO Compliance and Beyond](#)”.
- b. IFC’s Sustainability Policy states: “IFC is committed to ensuring that the costs of economic development do not fall disproportionately on those who are poor or vulnerable, that the environment is not degraded in the process, and that renewable natural resources are managed sustainably” (para. 9). Performance Standard 1 (para. 12) notes that “as part of the process of identifying risks and impacts, the client will identify individuals and groups that may be directly and differentially or disproportionately affected by the project because of their disadvantaged or vulnerable status. Where individuals or groups are identified as disadvantaged or vulnerable, the client will propose and implement differentiated measures so that adverse impacts do not fall disproportionately on them and they are not disadvantaged in sharing development benefits and opportunities.”

¹⁹ These requirements are set out under [IFC E&S Performance Standards](#).

²⁰ The [IFC Policy on E&S Sustainability](#) (2012) states “IFC believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which IFC pursues and expects to achieve through the application of this Policy on Environmental and Social Sustainability (the Sustainability Policy or the Policy), and a comprehensive set of environmental and social Performance Standards.” (para. 1). It further states that “Through this Policy, IFC puts into practice its commitments to environmental and social sustainability. These commitments are based on IFC’s mission and mandate, as presented in section II of this Policy.” (para. 2).

²¹ In 1998, IFC adopted its first [Operational Policy on Environmental Assessment](#) (OP 4.01), aligning with the World Bank’s then-prevailing Safeguard Policies. In 2006, IFC launched its Sustainability Policy alongside the first comprehensive set of Performance Standards on Social and Environmental Sustainability. These then became the basis for the [Equator Principles](#), that had been launched in 2003 and used by many commercial banks. In 2012, IFC updated the [Sustainability Policy](#) and [E&S Performance Standards](#) to strengthen requirements on human rights, climate change, gender issues, and capacity building.

²² IFC can influence project design only when investing in greenfield projects, or in the case of brownfield projects, where these plan to add to new structures.

²³ World Bank Group website: <https://www.worldbank.org/ext/en/who-we-are>

1.1 THE LINK BETWEEN LEVERAGE AND REMEDY

Adverse project impacts can arise for many reasons, including poor implementation of risk identification, management and mitigation measures, or unforeseen circumstances. Inadequate due diligence and supervision can contribute by failing to identify the risks, impacts, and appropriate management and/or corrective measures. Where project impacts have caused harm, IFC's Sustainability Policy and Performance Standards require that mitigation measures restore livelihoods (Performance Standard 5), living conditions (Performance Standard 5), and environmental quality (Performance Standard 3 and Performance Standard 6).

In recent years, significant developments have occurred in the policies and practices of development finance institutions (DFIs) regarding their roles and responsibilities, and those of their clients, in providing remedy for harm.²⁴ IFC and MIGA have emerged as leaders in this area through the adoption of their [Remedial Action Framework \(RAF\)](#), which recognizes that primary responsibility for preventing and remediating harm rests with the client, while IFC's role is to “use available financial, contractual and/or relationship influence and leverage to encourage clients and other responsible parties to take remedial action to address harm.”²⁵

IFC can only fulfil this role effectively if it retains adequate leverage throughout the investment period to influence its clients to carry out remedial actions that meet the requirements of relevant Performance Standards.

1.2 CIRCUMSTANCES WHERE INSUFFICIENT LEVERAGE CONTRIBUTES TO PROBLEMS: LESSONS FROM CAO CASES

CAO compliance investigations have identified recurring circumstances in which a lack of, or insufficient leverage—a leverage deficit—has contributed to E&S risks and impacts, and affected project E&S outcomes, including situations where:

- Client implementation of the project's Environmental and Social Action Plan (ESAP)²⁶ lags behind agreed timelines, increasing the risk that adverse E&S impacts will occur before mitigation measures are implemented.
- Agreed client mitigation measures detailed in an ESAP are scheduled for completion after most funds have been disbursed.
- Previously unidentified impacts and risks, not anticipated during project appraisal due to factors such as inadequate or absent E&S assessment or changes in project circumstances that require additional mitigation measures. Although such measures were not agreed with the client during the commitment period they are necessary for the project to meet the Performance Standards while under IFC's supervision. Clients may be reluctant to adopt such measures, particularly where they involve additional costs.
- Harm has occurred and the client is reluctant to remediate it, despite the “intent to do no harm” principle of the Sustainability Policy and the obligation under Performance Standard 1 for clients to avoid adverse E&S impacts or, where avoidance is not possible, to minimize, mitigate, and, where necessary, restore or compensate for harm.²⁷

²⁴ Refer, for example, to the discussion on remedy in the [External Review of IFC's/MIGA's Environmental and Social Accountability including CAO's Role and Effectiveness \(the External Review\)](#) (pages 69–79), and United Nations Office of the High Commissioner for Human Rights [Remedy and Development Finance Guidance and Practice](#).

²⁵ IFC/MIGA's 2025 [Interim Approach to Remedial Action](#) (RAF), (Section IV, para. 26).

²⁶ ESAPs “define desired outcomes and actions to address the issues raised in the risks and impacts identification process, as measurable events to the extent possible, with elements such as performance indicators, targets, or acceptance criteria that can be tracked over defined time periods, and with estimates of the resources and responsibilities for implementation.” ([IFC Performance Standard 1](#), para. 16).

²⁷ The mitigation hierarchy, specified in [IFC's Performance Standard 1](#) (2012), establishes the objective to “anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, *compensate/offset for risks and impacts to workers, Affected Communities, and the environment*” (italics added).

- Following a CAO compliance investigation and IFC's development of a Management Action Plan (MAP),²⁸ remedial measures are required but the client is unwilling to cooperate. Alternatively, IFC no longer has a commercial relationship with the client. This limits IFC's ability to influence its client to provide remedy to those negatively affected by the project, despite the expectation, grounded in the Sustainability Policy²⁹ and the CAO Policy's objectives,³⁰ that IFC pursue feasible remedial measures to address adverse E&S impacts.³¹

Taken together, these scenarios demonstrate how insufficient or diminishing leverage can restrict IFC's ability to influence clients to meet agreed E&S requirements, or to secure additional actions needed to address unforeseen risks or harm. Where E&S requirements are not implemented, and new risks are not addressed, this hampers the achievement of the desired E&S outcomes, implementation of the Sustainability Policy and CAO Policy stipulations to address non-compliances and harms, and ultimately undermines IFC's contribution to the World Bank Group's mission of ending extreme poverty and boosting shared prosperity on a livable planet.³²

When E&S impacts materialize, the Sustainability Policy requires IFC to "work with the client to bring it back into compliance, or if the client fails to reestablish compliance, IFC will exercise its rights and remedies, as appropriate."³³ Typically, IFC will first seek to address non-compliance by engaging with its client, starting at the level of the project team and their client counterparts, and escalating to higher levels of management as appropriate. Where this proves ineffective, IFC has a responsibility to employ its financial and contractual leverage to influence the client to comply with the investment's E&S terms.³⁴

Yet, **CAO compliance investigations have shown that influence often wanes over the life of an investment, especially as IFC's funds are disbursed.**

This challenge is evident in situations where a CAO compliance investigation leads to a MAP, but IFC no longer has an active commercial relationship with the client, leaving IFC with limited means to fulfill its Policy provision to seek to ensure that its investments are implemented in accordance with Performance Standard requirements.³⁵ Table 2 illustrates these patterns, capturing circumstances identified in 16 recently published compliance investigation

28 A Management Action Plan (MAP) is the time-bound set of remedial actions developed by IFC and/or MIGA management in response to findings from a CAO compliance investigation. Its purpose is to address identified non-compliance with IFC/MIGA E&S requirements and any related harm to project-affected people. MAPs are approved by the IFC and MIGA Boards, and CAO monitors and publicly reports on their implementation until completion.

29 Paragraph 7 of IFC's [Policy on E&S Sustainability](#) sets out how IFC seeks to ensure that the business activities it finances are implemented in accordance with the requirements of the [Performance Standards](#). Paragraph 24 of this Policy establishes IFC's role and responsibility when clients fail to comply with its E&S commitments to work with the client to bring it back into compliance and, if the client fails to re-establish compliance, IFC will exercise its rights and remedies, as appropriate. These Policy provisions underpin IFC's role in implementing its mitigation hierarchy and pursuing remedial measures where risks and impacts to workers, Affected Communities and the environment remain, as set out in the Objectives of [Performance Standard 1](#).

30 Section II of the [CAO Policy](#) sets out CAO's purpose as facilitating the resolution of complaints from project-affected people, fostering public accountability for IFC's and MIGA's commitments and enhancing their E&S performance. This includes facilitating access to remedy for project-affected people. Paragraph 113 provides that where CAO finds non-compliance and related Harm, CAO makes recommendations for IFC/MIGA to consider when developing a Management Action Plan (MAP). These may relate to the remediation of non-compliance and related Harm and/or steps needed to prevent future non-compliance.

31 Since the adoption of the [2021 CAO Policy](#), which introduced the formal Management Action Plan (MAP) process, 8 out of 12 MAPs have been developed in cases where IFC no longer had an active commercial relationship with the client at the time the MAP was prepared.

32 IFC [Policy on E&S Sustainability](#) (2012, para. 1) states: "IFC believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which IFC pursues and expects to achieve through the application of this Policy on Environmental and Social Sustainability (the Sustainability Policy or the Policy), and a comprehensive set of environmental and social Performance Standards." The [IFC & MIGA Independent Accountability Mechanism \(CAO Policy\)](#) (2021, para. 8b) states that the contribution of the CAO compliance function in delivering its mandate is to carry out "reviews of IFC/MIGA compliance with the E&S Policies, [assess] related Harm, and [recommend] remedial actions to address non-compliance and Harm where appropriate."

33 IFC [Policy on E&S Sustainability](#) (2012, para. 24).

34 IFC's [Policy on E&S Sustainability](#) (2012, para. 24) requires IFC to work with the client to bring the project back into compliance when E&S requirements are not being met, or to exercise rights and remedies as appropriate. [IFC/MIGA's RAF](#) (2023, para. 21) further notes that "IFC/MIGA are not/cannot be guarantors of E&S outcomes or remedial action, nor can they insure costs associated with remedial action for project related harm. However, [IFC/MIGA] have a role in exercising leveraging/influence and, where needed and appropriate, supporting enabling activities."

35 IFC's [Policy on E&S Sustainability](#) (2012, para. 7) states "While managing environmental and social risks and impacts in a manner consistent with the Performance Standards is the responsibility of the client, IFC seeks to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards."

reports related to 15 IFC projects (Subset 3)³⁶ that have informed CAO Advisory’s work on this topic.³⁷ In addition to these investigations, CAO reviewed a targeted sample of IFC projects that were not subject to CAO compliance review, selected to provide

examples of good practice and additional insights into leverage practice. See Appendix A for more sample details and Appendix B for details about the CAO compliance investigation cases.

Table 2. Frequency of circumstances limiting IFC’s use of leverage in recently published CAO compliance investigations (Subset 3)

General area	Data point/example ^a	No. of cases ^b
E&S risk assessments	CAO’s compliance investigation found that IFC’s pre-investment E&S risk assessment was inadequate or lacking	13/15
Leverage	Investment ESAP was designed with action(s) due following disbursement/subsorption	11/15
	CAO compliance investigation found that IFC disbursed (debt) and/or subscribed (equity) while the client had incompletely or inadequately acted on the ESAP	9/15
Exits	IFC or the client exited the investment during an active CAO process	10/15
	IFC stated it had little influence over the client as the reason for not being able to affect project-level actions in CAO compliance cases that IFC or the client exited ^c	6/10

Note: E&S = environmental and social; ESAP = Environmental and Social Action Plan

- a. For further details on cases, refer to appendixes A and B.
- b. CAO examined findings in 16 CAO compliance investigation reports published since FY20; they related to 15 IFC projects.
- c. In 4 of these 6 cases (mostly equity sales), IFC actively ended its financial relationship with its client before the CAO process was concluded.

³⁶ Two compliance investigations related to the same IFC project.

³⁷ CAO acknowledges the age of several of the investments in this sample and the institutional changes IFC has implemented—many of which have strengthened IFC’s E&S approach—since their approval. This analysis is included because many of the compliance investigation findings relate to leverage and provided impetus for this Advisory Note.



2.

The Foundations of IFC's Leverage

The foundations for effective leverage are embedded in several core elements of IFC's E&S risk management framework. These elements, established under IFC's Sustainability Policy, the Performance Standards, and IFC operational procedures such as the Environmental and Social Review Procedures (ESRP), provide leverage points by informing project design, structuring ESAPs, and enabling IFC to embed conditionality and other financial and supervisory provisions into legal agreements. Properly applied, they enable IFC to maintain influence throughout the life of a project, helping ensure clients continue to meet the Performance Standards.

This chapter considers whether IFC is currently making the most of these foundations for effective leverage. Can IFC more thoroughly utilize the leverage that existing policies provide? How can it build upon and strengthen the foundations of its leverage?

Specifically, the chapter examines the existing basis and prospects for:

- Thorough E&S risk and impact assessments commensurate to the nature of the risk and impact of the project during due diligence
- Adaptive management, built on robust due diligence
- Sufficient assessments of client capacity and commitment
- High-quality ESAPs for effective leverage
- Reporting as a foundation for leverage
- Maintaining leverage through to a responsible IFC exit from the investment.³⁸

2.1 THOROUGH UPFRONT E&S RISK AND IMPACT ASSESSMENT

Robust E&S due diligence, commensurate with the nature of potential impacts and risks of an operation, is required to enable IFC to effectively work with its client to anticipate, manage, and respond to material E&S considerations, including making necessary adjustments to respond to emerging issues along the way. Within this process, project-specific E&S risk and impact assessments are a key input, providing technical identification of material impacts and risks and the necessary mitigation measures. Wherever feasible, these assessments should be front-loaded³⁹ and completed⁴⁰ during IFC's due diligence process. IFC's policy and good practice emphasize that E&S due diligence should be commensurate with the nature, scale, and stage of the business activity and the level of E&S risks and impacts.⁴¹ This approach allows for the availability of decision-critical information, including all material risks and impacts, at appropriate milestones. Moving beyond the simple dichotomy of "front-loading" versus "back-loading," this approach ensures that IFC can establish and maintain leverage from the

³⁸ Refer to IFC's [Approach to Responsible Exit](#), enacted in 2025.

³⁹ In an operational context, "front-loading" means completing the bulk of E&S risk and impact identification and analysis during due diligence and prior to key decision points such as investment approval. This enables findings to be incorporated early into legal agreements, ESAPs, and other provisions that provide leverage.

⁴⁰ CAO acknowledges that IFC's risk-based approach means that E&S risk assessment is a continuous process throughout IFC's investment. Accordingly, when CAO concludes that risk assessments should be completed in IFC's due diligence stage—before IFC disburses or invests, this refers to formal risk assessment reports (ESIAs and the like) that provide baseline information on which IFC determines its assessment of investment risks.

⁴¹ Refer to [IFC's Policy on E&S Sustainability](#) (2012, para. 20-37)

outset, support timely mitigation, and uphold its policy commitments throughout the investment lifecycle.

Rushed or incomplete assessments limit IFC's ability to support client compliance from the start because IFC uses the findings of these studies, along with information on client capacity, context, and stakeholder perspectives, to shape the project ESAP, the E&S Management System (ESMS), and any E&S conditions in legal agreements agreed with clients. Deferring parts of the assessment of material risks and impacts, whether due to evolving project scope, lack of site access, or phased development, may sometimes be unavoidable. However, such deferrals can reduce IFC's leverage by limiting its ability to embed binding requirements before major funds are released and by increasing reliance on IFC's influence after financing has been disbursed, when leverage is often weaker. If a project's E&S assessment misses material impacts and risks up front, they will not be addressed in the ESAP or reflected in contractual provisions, resulting in a weaker leverage position for IFC once the project

is underway (see Box 3, below). **The strength of IFC's leverage during supervision is dependent on complete and accurate E&S risk and impact assessment during the due diligence process.**

CAO's compliance investigations have shown that late-stage identification of material risks frequently results in mitigation measures that are harder to enforce and impacts that remain unresolved. In 13 of the 15 recently published CAO compliance investigations (Subset 3), CAO found IFC's pre-investment E&S risk and impact assessment to be incomplete or inadequate. As a result, IFC had to seek client action to address impacts and risks during supervision because they had not been identified during E&S due diligence.⁴² In each case, CAO concluded that the impacts in question should have been identified through an environmental assessment of appropriate scope and quality before investment. Because these issues were not detected or addressed at the due diligence stage, they were not incorporated into project agreements or established as enforceable requirements. This weakened IFC's

Box 3. Case example: leverage risks of forging ahead with incomplete information

When the IFC Board approved an investment in Awba, Myanmar, in 2016, it did so based on incomplete information. CAO Compliance found that IFC had postponed identification of the E&S risks and impacts of two project facilities until the supervision phase by requiring the client to establish an Environmental, Health and Safety (EHS) risk assessment process as an action item in the ESAP. IFC then disbursed the loan in a single tranche, without conditioning the disbursement on any specific E&S requirements. This meant that IFC's disbursement took place without sufficient information to identify E&S risks, impacts and/or mitigation measures for key aspects of the project it was funding. IFC also lacked the information required to determine whether Awba would be able to meet the Performance Standards within a reasonable period of time or to include the necessary E&S conditions within the loan agreement. IFC took this approach despite identifying the client's E&S capacity as a significant investment risk.

The project also operated in a complex regulatory and political environment, which led to difficulties gathering baseline data. CAO found that, as a result, IFC's due diligence was incomplete. IFC nevertheless went ahead with the single-tranche disbursement, which weakened its contractual leverage to secure the appropriate mitigation measures from Awba once the project began. Despite best efforts during supervision, IFC was unable to secure the client's cooperation to implement appropriate measures for hazardous chemical storage, waste disposal, and water and air pollution, resulting in environmental risks persisting as the project was implemented.

⁴² CAO compliance investigation reports are, by their nature, retrospective assessments—a “rear view mirror” look at IFC's past investment decisions and implementation. While the findings in this Advisory Note highlight recurring issues, they do not establish whether or how widespread such problems are across IFC's active portfolio. The key takeaway of this Note is forward looking: to ensure that future project approvals are supported by an appropriate level of E&S due diligence, proportionate to the scale and significance of impacts and risks, so that IFC is positioned to manage its clients to effectively address those risks.

contractual leverage and reduced its ability to secure its client's cooperation in implementing effective mitigation consistent with the Performance Standards once operations were underway, leading to harm for complainants and affected communities that might have been avoided or reduced had timely measures been carried out.

In response to the compliance findings of several of these cases, CAO recommended that IFC enhance its internal guidance and controls to improve its approach to the identification and analysis of E&S risks and mitigation strategies before approving investments. **CAO acknowledges IFC's amendments to its internal procedures in line with this recommendation. As of January 2025, IFC had updated its E&S Review Procedures (ESRP), introducing revised language regarding the structuring of ESAPs and E&S conditions within client/investee legal agreements, alongside strengthened internal processes for risk and impact identification and review.**

2.2 ADAPTIVE MANAGEMENT, BUILT ON ROBUST DUE DILIGENCE

Evolving project circumstances may result in an altered risk landscape. In such cases, the ESAP, which sets agreed measures for managing E&S risks, should be updated to reflect new realities. Making such updates is an example of *adaptive management*, a structured, iterative process that involves modifying actions in response to monitoring results, changing conditions, and residual uncertainties.⁴³

Effective adaptive management depends on starting from a solid baseline of E&S information, gathered as part of an ESA/ESIA (E&S Assessment/E&S Impact Assessment), which identifies and analyzes potential changes resulting from the project, and recommends actions to avoid, minimize, or remediate adverse effects. It cannot compensate for an inadequate ESA/

ESIA. Without a complete and accurate E&S baseline and impact/risk analysis, IFC's ability to identify, justify, negotiate, and enforce changes needed to address emerging E&S concerns during project implementation is significantly reduced.

CAO cases highlight difficulties in employing adaptive management when the foundational E&S impact and risk analysis is incomplete or lacking. For example, issues emerging after IFC's pre-investment due diligence often could not be managed effectively due to limited influence over the client, and/or client resistance to taking action beyond the agreed scope of the ESAP or to cover additional unforeseen expenditures.

This finding is consistent with E&S risk management literature, which establishes that robust E&S assessments—characterized by comprehensive scoping, adequate baseline data collection, contextual risk analysis, and meaningful stakeholder engagement—substantially reduce the probability of unforeseen impacts and provide a framework for systematically identifying and managing areas of uncertainty.⁴⁴ **The efficacy of an adaptive management approach to E&S impact and risk mitigation depends on both a robust E&S baseline established through comprehensive E&S due diligence and maintaining sufficient leverage, which typically diminishes after major funds are disbursed.**

Box 4 presents an example of an IFC project in which adaptive management did not function effectively when leverage diminished after disbursement.

Strong E&S due diligence forms the basis for effective project implementation, with supervision operating as part of a continuous, iterative risk management cycle. The critical consideration is the sequencing of analyses and studies to ensure that decision-critical E&S risk and impact information, including robust baseline data and mitigation measures, is available at defined milestones—such as investment approval, disbursement, or financial close—in accordance

⁴³ Adaptive management is not a substitute for adequate Environmental and Social Due Diligence (ESDD). While adaptive management provides a mechanism for adjusting E&S measures in response to evolving circumstances, its effectiveness depends on the quality and completeness of the initial risk identification, assessment, and mitigation planning undertaken during ESDD.

⁴⁴ Refer, for example, to Ibsen C. Cardenas and Johannes I. M. Halman, 2016, "[Coping with Uncertainty in Environmental Impact Assessments: Open Techniques](#)" (*Environmental Impact Assessment Review* 60: 24–39).

Box 4. Case example: How disbursements can diminish leverage

In the CAO compliance case involving [Salala Rubber Corporation](#) in Liberia, IFC diminished its own leverage by:

1. Proceeding with a disbursement in the absence of an E&S Impact Assessment (ESIA) compliant with the Performance Standards.
2. Proceeding with disbursements without assurance that the company had a plan to compensate for economic displacement and measures to restore livelihoods in accordance with Performance Standard 5 (Land Acquisition and Involuntary Resettlement), despite directly funding purchases of land acquired for the project.

In 2008, IFC approved the project and committed financing without first receiving or reviewing an ESIA for the client's planned expansion of its rubber plantation. The client's ESIA was anticipated before Board approval, but was not delivered until after commitment, at which point IFC found it to be materially defective with missing key baseline data among other gaps. Despite the absence of a compliant ESIA at investment approval, IFC made its first disbursement to Salala without requiring the client to correct the gaps. Further, the ESIA was never revised to meet Performance Standard requirements over the life of the 15-year investment, from 2008 to 2023.

Entering supervision under these conditions meant IFC lacked both the technical information and binding commitments needed to set or enforce corrective actions when serious issues arose. Accordingly, IFC proceeded with subsequent disbursements without assurance that the company had in place material E&S risk management measures including a Livelihood Restoration Plan (LRP) compliant with Performance Standard 5.

The company subsequently cleared community lands without a proper Performance Standard 5 compensation framework and other mitigation measures, resulting in harm to local communities in areas such as cultural heritage, resettlement, and livelihood restoration. While Ebola-related restrictions limited IFC's ability to conduct onsite supervision during 2014–15, the underlying challenge was reduced leverage and an incomplete early risk profile.

Even after 15 years of engagement, IFC could not secure the client's cooperation to implement needed measures, leaving key E&S risks and impacts unresolved. As documented by CAO's investigation, unresolved adverse impacts included deficiencies in compensation related to land acquisition and in consultations with the public, gender-based violence and harassment, public security, Indigenous Peoples, cultural heritage, water quality, and labor practices. This case underscores how proceeding to approval and disbursement without a Performance Standard-compliant ESIA, and without ensuring deficiencies are remedied, can permanently weaken IFC's leverage and prevent effective adaptive management throughout an investment's lifespan.^a

a. *It is important to note the contextual factors in this case. IFC was operating in a post-conflict environment with weak regulatory systems, limited baseline data, and significant institutional constraints. All these factors constrained the quality and timing of available information. Given that IFC invests in such contexts regularly, it should consider how it can better gather the information necessary to make appropriate risk-informed investment decisions.*

with the project's E&S impact and risk profile. This good practice approach enables decisions to be made based on timely, relevant information, and provides the technical and contractual framework on which adaptive management depends to respond effectively to E&S impacts and risks throughout an IFC investment.

2.3 THOROUGH ASSESSMENTS OF CLIENT CAPACITY AND COMMITMENT

A robust assessment of a potential client's E&S capacity and commitment represents another foundation of effective leverage since client ability to implement agreed mitigation measures directly affects how effectively project E&S impacts and risks can be managed.

During due diligence, IFC assesses both the client's *commitment* (willingness to meet E&S requirements) and *capacity* (ability to do so) to plan which E&S milestones should be linked to specific leverage points. These factors are interrelated. For example, strong capacity without commitment can lead to reluctance to implement agreed measures, while strong commitment without capacity means

there is a willingness to act, making targeted capacity-building efforts more likely to succeed and deliver effective outcomes. Understanding where a client sits on the spectrum of capacity and commitment helps IFC decide how to most effectively structure ESAP milestones, embed conditionality in legal agreements, and sequence interventions over the life of the investment.

Different combinations of client capacity and commitment call for distinct leverage and support strategies, as illustrated by Table 3.

IFC E&S experts consulted for this Advisory Note commented that, in their experience, client commitment to E&S performance is not static. For example, new clients are often interested in improving their E&S performance, and are willing to try with IFC's help, but at times, they do not fully grasp the implications until they implement the agreed actions. This can be complicated in situations such as during project construction where benefits from improving corporate E&S performance may take longer to materialize in comparison to the client's more immediate costs.

IFC E&S experts added that the level of support clients receive during the early stages of project

Table 3. Matrix of client capacity and commitment

	Low commitment	High commitment
Low capacity	Low commitment, low capacity. The client lacks both willingness and ability. IFC's approach must rely heavily on strong contractual conditionality, disbursement triggers, and close supervision to seek to ensure compliance. Ultimately, IFC must assess whether this client profile can achieve E&S performance that aligns with its Sustainability Policy before proceeding with the investment.	High commitment, low capacity. The client is willing to meet E&S requirements but lacks the resources, systems, or expertise to do so. IFC is called to supplement its approach by providing strong and consistent technical assistance. Leverage is reinforced through supportive supervision that builds capacity while ensuring progress on agreed actions.
High capacity	Low commitment, high capacity. The client has the ability but is reluctant to prioritize E&S requirements. IFC's leverage strategy should consider whether this client profile can lead to achieving the required E&S performance considering the E&S impacts and risks of the operation, and if so how.	High commitment, high capacity. The client is both willing and able. IFC can expect the client to meet requirements without significant capacity building support.

implementation can have a material impact on the clients' sustained commitment to achieving robust E&S outcomes. IFC supports clients in strengthening their E&S capacity through a range of measures, from formal Advisory Services projects to informal guidance on operational implementation challenges—sometimes referred to as “handholding.” The need for such support should be identified early in the assessment stage.

Client E&S capacity-building is frequently cited as core to IFC's additionality in project Board reports.⁴⁵ Enhancing clients' E&S risk management capacity can contribute significantly to improving the E&S outcomes of IFC's investments, and ultimately the institution's development impact. However, since IFC has limited staff availability for E&S advisory support, many projects with identified capacity constraints do not receive tailored E&S support beyond normal supervision activities. While some degree of handholding takes place in these projects, specialists note that they are spread too thin to provide substantive support to many clients. An additional frequent challenge related to client capacity observed in CAO cases is a lack of availability of qualified E&S experts in the countries of operation.

Client capacity and commitment play a significant role in the E&S outcomes of IFC's investments. Early, accurate, and ongoing assessments of client capacity and commitment enhance IFC's ability to plan relevant support to the client as needed to enhance client E&S performance and deliver on the requirements of IFC's Sustainability Framework.

2.4 HIGH-QUALITY ESAPS FOR EFFECTIVE LEVERAGE

A well-designed ESAP is another cornerstone of IFC's foundation for building effective leverage for E&S performance. Developed during pre-investment due diligence, the ESAP sets out the specific, timebound, and costed actions a client must take to meet the Performance Standards. Once agreed, the ESAP becomes a binding component of the legal agreement, alongside other E&S covenants and reporting requirements.⁴⁶

PURPOSE AND ROLE OF ESAPS

ESAPs lay the foundation for E&S performance by providing a clear framework for IFC supervision. High quality ESAPs enable IFC to monitor compliance effectively, intervene when agreed actions are not implemented as required, and provide a clear path to work with the client where necessary to bring the project (back) into compliance.

The clarity, specificity, and relevance of ESAPs are directly tied to IFC's ability to supervise E&S performance. If ESAPs are vague or omit key mitigation actions, IFC's ability to work with clients and to hold them accountable is weakened from the start.

IFC's Sustainability Framework, Guidance Notes, and E&S Review Procedures clearly note that ESAPs should include:

- Descriptions of actions and mitigation measures
- Indicators of fulfillment of mitigation measures
- Timelines for implementation of actions and mitigation measures
- Schedule and mechanism(s) for internal and external reporting on ESAP implementation.

⁴⁵ IFC specified its E&S capacity-building support as a source of additionality in 38 of 51 investments in CAO's extended portfolio sample of IFC projects with and without CAO cases (Subset 2).

⁴⁶ Some examples of these are: compliance with IFC's Performance Standards; maintenance of an ESMS appropriate to the project's risks; obtaining and maintaining all required E&S permits and licenses; allowing IFC to conduct site visits and review relevant records; and allowing access by CAO if a complaint is filed.

Once incorporated into legal agreements, the ESAP sets clear expectations for clients and stakeholders regarding roles, responsibilities, and deadlines.

BENEFITS OF HIGH-QUALITY ESAPS

High-quality ESAPs strengthen leverage by establishing concrete, relevant, and measurable commitments to enable effective implementation of mitigation measures.

CAO's Subset 2 of 51 IFC investments, with and without CAO cases associated with them contained several examples of ESAPs exhibiting high quality. For instance, in an agribusiness project approved in 2022, IFC's thorough due diligence allowed for a comprehensive ESAP that included checks and balances throughout and extended as far as the company's supply chain risk.⁴⁷ In another CAO case, the investment's ESAP described the deliverables in detail and IFC aligned any sign-off on their implementation with that description, allowing little room for weak implementation.⁴⁸

Applying good practice in the drafting of ESAPs has also yielded observable results in CAO cases. Of Subset 1 of 26 projects with CAO cases, three of four investments with a strong ESAP implementation record had benefited from high-quality ESAPs. For example, in one Category A oil & gas exploration investment, IFC tailored the client's ESAP to align with the activities they would undertake. When IFC invested, the client had no sites to explore but intended on acquiring them in the supervision phase. Accordingly, IFC developed a comprehensive ESAP with adaptive measures and dynamic timelines that required the client to align its risk assessments of new assets with IFC's Performance Standards, Good International Industry Practice (GIIP), and host country regulations. As an exploration project, the potential for greater IFC investment was on the table,

providing an incentive for the client to implement its ESAP judiciously, which gave IFC leverage. Throughout the supervision documentation to which CAO had access, IFC noted the client's compliance and strong performance.

These examples demonstrate how ESAP quality significantly affects IFC's ongoing ability to influence project E&S outcomes and sustain leverage.

RISKS OF LOW-QUALITY ESAPS

CAO cases also reveal considerable variability in the quality of ESAPs. Specifically, of the 22 real sector investments in Subset 1 of IFC projects with CAO cases (26), approximately one in four (6/22) had ESAPs containing only general rather than specific measures—lacking a clear, tailored pathway for the client to achieve compliance with Performance Standards requirements.⁴⁹

When ESAPs lack details specific to a client's operations, clients may not have a complete understanding of the actions and associated resources necessary to comply. As a result, they may commit to E&S requirements without the capacity or commitment necessary to fulfill them.

For example, in one of the six investments with non-specific ESAP actions, the client decided unilaterally to leave one action related to water sanitation incomplete.⁵⁰ The client simply stated that the required measure was too expensive, signaling its intent to complete only the ESAP actions it was willing to address. At that point, IFC had disbursed the entire loan and therefore, despite strong efforts, lacked the leverage to influence a client that was no longer committed. Upon exit, the action remained incomplete according to the documentation CAO reviewed.

⁴⁷ Refer to the ESAP for IFC's investment in [LDC Brasil](#).

⁴⁸ Refer to the ESAP for IFC's investment in [Eleme Fertilizer II](#).

⁴⁹ Examples of these general nonspecific ESAP actions include requirements for clients to update management systems, or engage with relevant stakeholders, without details tailored to the client and/or project.

⁵⁰ Where this Advisory Note has not named cases, the compliance investigation is still in progress at the time of writing and not yet been publicly disclosed. As such, the case findings remain confidential at the time this Advisory Note was published, and the case is not named here.

CAO recognizes that ESAPs should not be overly prescriptive and that clients can also use the IFC guidelines to align their E&S policies and systems with the Performance Standards. Nevertheless, to maximize leverage, ESAPs need to set out concrete, measurable, costed, and time-bound commitments.⁵¹ Only such specificity allows IFC to assess and supervise E&S compliance effectively over the course of the investment.

SEQUENCING AND TIMING OF ESAP ACTIONS FOR LEVERAGE

Sequencing ESAP actions so that the most critical or urgent measures, especially those addressing high-risk issues and impacts, are linked to early contractual requirements, creates opportunities for IFC to encourage clients to complete these items while leverage is at its peak. To achieve this, priority actions are often elevated to contractual requirements beyond general covenants to specific, time-bound conditions in legal agreements, which must be satisfied before subsequent disbursements or approvals. This approach ensures IFC retains sufficient leverage while priority E&S actions remain to be implemented.

Thoughtful sequencing enables IFC to work with its client to address risks when its influence is strongest. Leverage often diminishes following disbursement unless the investment is supported by additional mechanisms to strengthen leverage, such as the potential for follow-on investment, targeted capacity-building support, and other tools explored elsewhere in this Advisory Note.

REPORTING AS A FOUNDATION FOR LEVERAGE

Timely, accurate, and comprehensive reporting is also a cornerstone of IFC's leverage. Reporting provides the evidence base IFC needs to engage with clients

on emerging risks, justify corrective measures, and, where necessary, enforce contractual requirements in order to bring the client back into compliance.

Reporting requirements tailored to project risk profiles may be quarterly, biannual, or annual, and often include status updates on ESAP implementation, remedial actions, and any incidents. High-risk projects may require detailed site data, monitoring results, or third-party audits. Ad hoc disclosures are required for serious incidents or operational changes affecting E&S performance.

These reporting requirements form an integral part of IFC's leverage mechanism. Mandating transparent and consistent information flows puts IFC in a better position to track client performance, monitor ongoing risks, and support and supervise the client in meeting the agreed-upon E&S commitments.

2.5 MAINTAINING LEVERAGE THROUGH TO THE TIME OF RESPONSIBLE EXIT

Exits are common in IFC investments subject to CAO cases. CAO Advisory's 2023 publication, [Responsible Exit: Insights from CAO Cases](#), found that over the ten years between FY13 and FY22, exits occurred in 41 percent of CAO cases while the CAO process was ongoing. Among these, 88 percent of exits (15 of 17) related to debt investments were "early" exits, with IFC or the client ending the relationship before the loan reached maturity. More recently, as delineated in Table 2, exits occurred in two-thirds of CAO cases (10 out of 15) with recently published compliance investigation reports (Subset 3). In 60 percent of those cases (6 out of 10), IFC management pointed out that the exit left it without the leverage needed to engage the client to implement agreed MAP actions, thereby limiting its ability to address CAO's non-compliance findings, particularly at the project level. These dynamics can result in a "remedy gap," whereby the concerns of project-affected people

⁵¹ IFC recently adopted the practice of costing its ESAPs. CAO welcomes this change, which promises to increase implementation rates of ESAP measures by preventing situations in which the client is surprised by the cost of E&S measures that have been agreed.

are not addressed, even when they have engaged in dispute resolution or when there has been a compliance investigation process.⁵²

Against this background, good practice indicates that DFIs should act to address ongoing or future negative E&S impacts and risks before exiting. The UN Guiding Principles and global Responsible Business Conduct standards encourage DFIs and their clients to “lean into risk”, remain engaged, and seek “opportunities to build and exercise leverage to improve the situation in supply chains and other business relationships as far as possible.”⁵³ If risks persist after all leverage options are exhausted, ending the relationship may be necessary, but only after assessing potential adverse impacts on human rights. Where all other leverage options have been used and the risks remain, these standards advise institutions to “consider ending the relationship, taking into account credible assessments of potential adverse human rights impacts of doing so” through a process that focuses on the impacts of a potential exit or potential decision to remain.⁵⁴

In its 2023 Advisory Note, CAO documented how weaknesses in E&S risk management during IFC's appraisal and supervision of projects contribute to

E&S risks at exit.⁵⁵ IFC's [Approach to Responsible Exit](#) now emphasizes using all practicable leverage prior to investment exit to ensure the client implements the agreed project ESAP.

Contractually, IFC can generally exit an investment because of a client's E&S non-compliance by invoking an Event of Default or by cancelling undispersed funds in debt investments. IFC staff have emphasized that calling an Event of Default is a complex decision that requires balancing a number of considerations and may be detrimental to development goals. It can, however, be a powerful form of leverage, signaling IFC's seriousness about E&S matters and recognizing that achieving E&S outcomes consistent with the Performance Standards is a core component of sustainable development. Accordingly, IFC should consider systematically including the possibility of an Event of Default for E&S non-compliance in investment legal agreements. The functional equivalent in equity investments is a put option, a common equity exit mechanism.⁵⁶

Figure 1 illustrates the concepts discussed in the preceding sections which make up the foundations of and core mechanisms for IFC's leverage for E&S outcomes in typical project contexts.

52 Refer to CAO's 2023 Advisory Note entitled [The Remedy Gap: Lessons from CAO Compliance and Beyond](#)

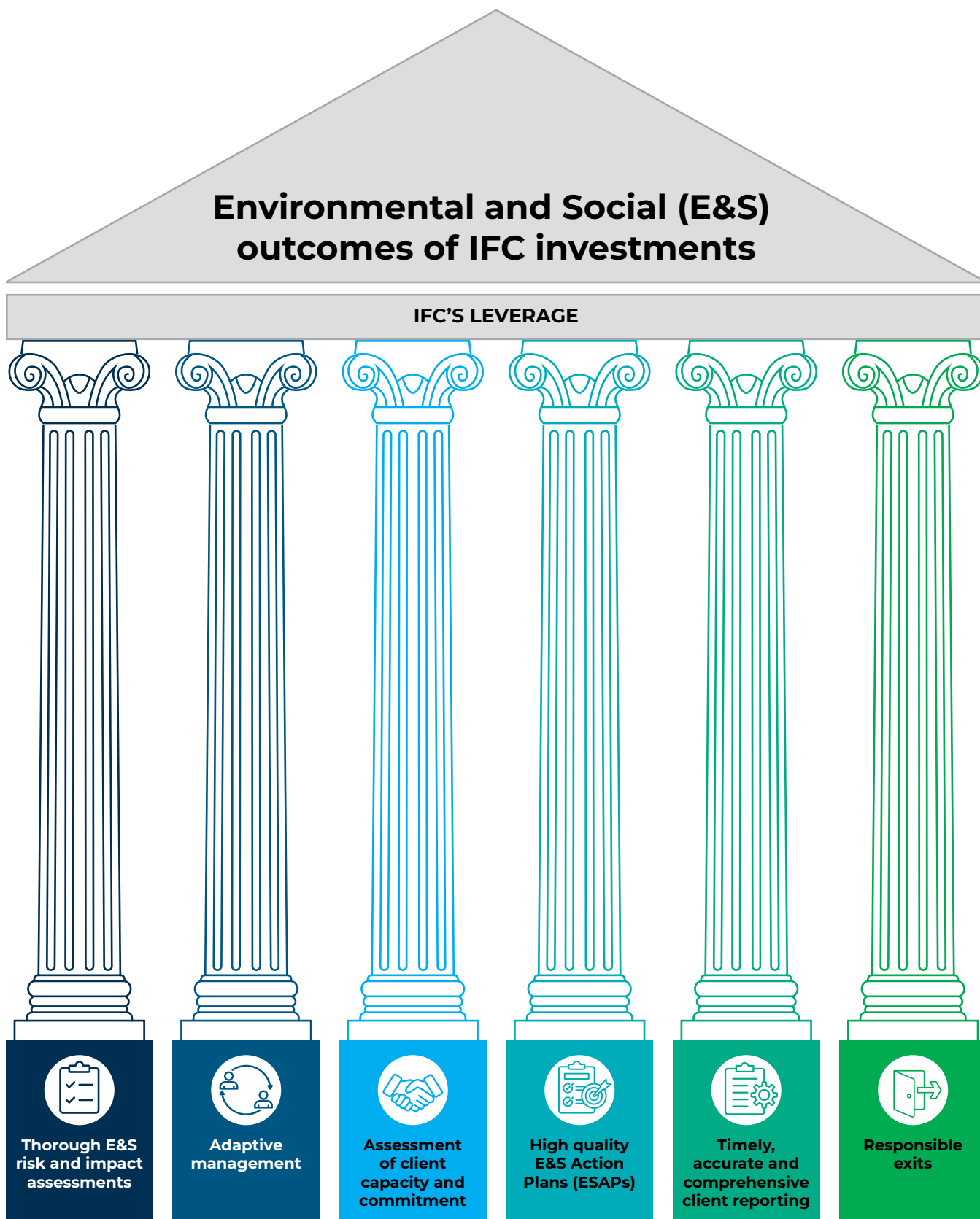
53 UN Human Rights Office, [Strengthening Supply and Value Chain Risk Management: The Role of Development Finance Institutions' Environmental & Social Safeguard Policies](#) (2025, p. 12).

54 [UN Principles on Business and Human Rights](#) (2011, Principle 19, commentary).

55 [Responsible Exit: Insights from CAO Cases](#).

56 A put option allows IFC to sell some or all its equity in a company to a designated “put obligator”—typically the company or sponsor— at a pre-agreed price within a specific period or upon events defined in the legal agreement. Breaches of E&S compliance can be included as such an event.

FIGURE 1. FOUNDATIONAL ELEMENTS OF LEVERAGE





3.

IFC's Current Core Instruments for Increasing Leverage

In the previous section of this report, the necessary foundations for sufficient leverage were identified in core elements of IFC's standard E&S risk management. Those foundations include established tools such as thorough risk and impact assessments, adaptive management, assessments of client capacity and commitment, high-quality ESAPs, reliable reporting, and maintaining leverage through to a responsible exit.

With these foundations in place, IFC can deploy practical leverage mechanisms: for example, conditions tied to disbursement, default clauses, and financial incentives. Such tools enable IFC to influence clients to meet their E&S commitments and address project risks.

This section outlines the main tools that IFC already uses to secure a client's compliance with its E&S requirements throughout an investment. These mechanisms are embedded in legal agreements and operational processes.

3.1 RELATIONSHIP-BASED LEVERAGE AND REPEAT BUSINESS

For some clients, IFC is the only financier available to them, or the only lender with attractive terms. However, clients also often approach IFC for nonfinancial reasons, including gaining E&S expertise and IFC's stamp of approval. Being associated with IFC can signal strong E&S performance to markets and future investors, and it can support company objectives such as engaging in an initial public offering (IPO).

During due diligence, **IFC investment staff and E&S specialists build working relationships with clients that form the backbone of day-to-day supervision and influence.** IFC will typically seek to address non-compliances by engaging with the client at the operational level and escalating to higher levels of management as appropriate. IFC's analysis of potential relationships available to influence client action should

include the parent company and other members of the client's corporate family. Relatedly, unaddressed non-compliances with one member of a corporate group should lead IFC to increase the scrutiny of future business with other members of the group.

A strong client relationship is fostered when IFC E&S specialists have time to support the client with E&S challenges or help enhance their E&S risk management practice. Providing "handholding" or more formalized capacity support serves to increase IFC's influence over the client.

Repeat business is an important source of relationship-based leverage. A 2017 report by the World Bank Group's Independent Evaluation Group (IEG) on IFC's strategic client engagement for increased development impact found that 48 percent of IFC's projects and 53 percent of its commitment volume are with repeat clients.⁵⁷ In CAO's extended portfolio sample of 51 investments with and without related CAO complaints (Subset 2), 75 percent (38) were with repeat clients. This prevalence indicates that long-term relationships are both a central feature of IFC's portfolio and a critical avenue for leverage—offering opportunities to strengthen E&S performance over time, while also highlighting the need to manage E&S risks consistently across successive engagements. IEG's evaluation also found that, "Areas where repeat clients' perceptions about IFC's performance relative to the alternative [lender options] improved the most over this period [2011–16] include climate change mitigation input, government relationships (access to governments), being part of the World Bank Group, and E&S inputs."⁵⁸

⁵⁷ IEG, [The IFC's Approach to Engaging Clients for Increased Development Impact](#) (2017, p. 15).

⁵⁸ IEG, [The IFC's Approach to Engaging Clients for Increased Development Impact](#) (2017, p. 25).

In consultations with CAO, IFC E&S specialists explained that the longer-term relationships with repeat clients offer IFC multiple benefits, including the ability to establish more clarity around E&S expectations, as well as more active and frequent engagements with clients at the technical, managerial, and board levels.

Given that development goals often take time to meet, the benefits enabled through repeat investment are not only areas of leverage for improved E&S outcomes but a means of achieving the development impact central to IFC's mission.

Access to additional financing links a client's eligibility for follow-on investment, new financial products, or larger facilities to its E&S performance. This creates a forward-looking incentive: clients that meet or exceed E&S requirements benefit from easier access to expanded funding opportunities, while those that underperform may be excluded. It also aligns IFC's capital allocation with its sustainability objectives by directing more resources to high-performing clients.

The link to current E&S performance is reflected in IFC's internal systems. IFC's internal rating for client E&S performance must be satisfactory for a repeat investment to be approved. If a client's E&S rating is unsatisfactory, then IFC cannot reinvest. IFC regularly uses this tool, with 15 of the 51 extended portfolio sample investments with and without CAO cases (Subset 2) experiencing a downgrade during the project life.

Companies that seek financing from IFC also benefit from expertise that adds value, such as upgrades to their E&S risk management system, as compared with working with commercial banks. Working with IFC to meet the Performance Standards—while daunting at first for some

clients—provides advantages that go beyond E&S risk management and include better access to capital at possibly more advantageous rates, in addition to IFC's stamp of approval and the market signal associated with it. Clients that understand the benefits of improved E&S performance will be more amenable to staying on the learning curve and making necessary upfront investments.

3.2 CONTRACTUAL PROVISIONS

Key leverage mechanisms include the following.

- *Conditions of Commitment/Conditions of Disbursement:* Contractual requirements that must be met before funds are released, ensuring priority E&S actions are completed before IFC funding is committed/disbursed.
- *Affirmative and negative covenants:* Provisions requiring or prohibiting specified actions by the client to safeguard E&S performance.
- *Reporting requirements:* Obligations for clients to provide timely information, facilitating IFC's supervision and ability to respond to risks.
- *Events of default/exit rights:* Clauses that allow IFC to suspend, exit, or otherwise enforce compliance in case of serious E&S breaches.

Table 4 provides an overview of the contractual provisions and pre-contractual provisions currently employed by IFC to provide leverage for E&S issues. Which contractual provisions IFC can use will vary by financial product.⁵⁹

⁵⁹ For instance, Conditions of Disbursement are used in debt investments. The equivalent in the context of equity investments is Conditions of Subscription.

Table 4. IFC client contractual and pre-contractual provisions for E&S issues

Legal agreement section	Definition	Purpose in E&S context	Examples of inclusions ^a
Affirmative covenants	Actions to be taken by the client during the life of the investment.	Provide rules/undertakings by which a client is bound that serve to manage risk and allow monitoring of an investment over the project cycle.	<ul style="list-style-type: none"> • Compliance with the Performance Standards. • Develop and comply with investment ESAP. • IFC's right to conduct site visits and review records. • Allow access by CAO.
Negative covenants	Actions that the client cannot undertake during the life of the investment.	Ensure the client does not take actions that could compromise E&S compliance or increase risk.	<ul style="list-style-type: none"> • Requirement not to amend the ESAP unless agreed. • Requirement not to finance activities on the IFC Exclusion List.^b
Conditions of Commitment	Specific requirements that must be satisfied for IFC to formalize its commitment.	Ensure critical E&S matters are in place before IFC commits funds.	<ul style="list-style-type: none"> • Obtain valid permits and licenses.
Conditions of Disbursement; Conditions of Subscription	Requirements that specifically apply to the release of funds for a given disbursement or tranche.	Require high-priority E&S actions to be completed before IFC is bound to release funds for that stage of the project.	<ul style="list-style-type: none"> • Implement resettlement plan before land is cleared. • Install pollution control equipment before operations start.
Conditions Subsequent	Requirements that apply after disbursement (full or partial), within a defined timeframe.	Legally bind the client to complete time-sequenced E&S actions after disbursement.	<ul style="list-style-type: none"> • Hire E&S manager within three months of disbursement. • Complete training programs for staff.
Reporting Requirements^c	Client reporting requirements.	Require clients to provide IFC with timely, accurate information to monitor compliance, detect risks early, and take corrective action before impacts and risks materialize or escalate.	<ul style="list-style-type: none"> • Requirements for reporting incidents to IFC, submission of Annual Monitoring Report (AMR) including AMR form, timeline, and frequency of submission.
Indemnities	Provisions that obligate the client to pay for specific expenses incurred by IFC and/or IFC consultants in exercising their rights.	Reinforce accountability and protect IFC from financial liability.	<ul style="list-style-type: none"> • Client obligation to cover IFC costs related to losses, claims, or liabilities arising from E&S matters such as breaches of IFC's Performance Standards, environmental contamination, health and safety incidents, and third-party claims linked to the project.

a. For illustrative purposes only. Inclusions will vary depending on the nature of the projects and significance of risks/impacts.

b. IFC's Exclusion List is a set of activities and products that IFC does not finance (such as weapons and munitions).

c. Reporting requirements support IFC in employing leverage by providing information on which IFC can base decisions during supervision.

Different financial instruments offer distinct opportunities for leverage. Some of the most common in IFC's portfolio include the following:

- *Debt investments*: leverage can be built through disbursement schedules, Conditions of Commitment, Conditions of Disbursement, Conditions Subsequent, covenants, events of default, and indemnities.
- *Equity investments*: influence may come from front-loading key ESAP actions and linking them to Conditions of Subscription, embedding E&S provisions in shareholder agreements, and securing governance rights such as board representation.
- *Syndicated loans* IFC can exert influence through its role as lead or anchor investor.

Embedding requirements in contracts is a basic, common-sense tool that IFC and other financial institutions use to create leverage. IFC's leverage flows directly from how it translates its E&S Performance Standards into specific mitigation actions anchored in legal agreements. For instance, effective covenants clarify operational boundaries and everyday expectations, providing a baseline for both monitoring

and potential intervention. IFC further includes its clients' reporting requirements, their frequency, and protocols for reporting incidents within the legal investment covenants. The right to access project sites for IFC and CAO staff and consultants is also stipulated. These aspects are part of IFC's standard legal agreement and facilitate access to the information IFC (and CAO) needs to effectively monitor project performance and intervene where necessary.

CAO's review found several examples in which IFC built in contractual leverage. In Subset 1 of IFC investments with CAO cases (26), 10 of the 15 debt investments examined, had compliance with the Performance Standards stipulated as a condition of *all* disbursements. In eight of these investments, the relevant ESAP had actions scheduled for completion after IFC had disbursed its first tranche. By stipulating ESAP compliance as a condition of each disbursement, IFC had a contractual lever available as it released its funds. This is good leverage practice that should be the case for all investments with disbursements. Box 5 presents another good practice example in which IFC prepared for the potential emergence of E&S risks in supervision by including proactive risk management provisions in the investment legal agreement.

Box 5. Good practice example: preparing for the unknown

In interviews for this paper, E&S staff confirmed that E&S challenges often emerge during the supervision phase. How can IFC better prepare to manage such risks if and when they emerge once leverage has diminished?

Effective IFC projects build E&S risk management tools into key investment documents. The usefulness of this approach is illustrated by an equity investment with high E&S risks (Category A) in the Middle East and North Africa region. The client planned to acquire project sites only after the investment began. This meant that Environmental and Social Impact Assessments (ESIAs) could not be completed until sites had been identified. In response to these circumstances, the Environmental and Social Management System (ESMS) that IFC agreed with the client prior to commitment included provisions for the client to develop project-specific ESIs in alignment with IFC's Performance Standards for all projects the company acquires and develops, as well as E&S provisions for resulting Management Action Plans. The ESMS stipulated that if a project is acquired mid-construction, the client will commission a third-party audit to identify any Performance Standard gaps and include corrective measures in an ESAP.

IFC reported on this client's strong performance throughout supervision and sold its equity after the client had implemented best-in-class E&S standards. With IFC's help, the investment accomplished its developmental targets as well as a higher-than-expected capital gain.



4.

Leverage Gaps

While CAO’s review identified many good practice examples of IFC applying contractual and other leverage tools effectively, it also found cases where IFC’s influence over client E&S performance diminished despite having leverage available. This variability in IFC’s application of leverage across projects highlights both strengths to build upon and gaps to address. The following chapter discusses situations, drawn from CAO’s compliance casework, in which IFC’s influence over client E&S performance diminished despite the availability of leverage tools. The chapter also proposes ways of addressing these gaps.

4.1 NOT EMPLOYING AVAILABLE LEVERAGE

CAO’s review found several examples in which, although IFC’s client was materially non-compliant with the Performance Standards over multiple years, IFC did not exercise available contractual leverage to bring the client into compliance. Two of these cases are detailed below. CAO acknowledges that IFC often pursues avenues such as increased supervision or technical assistance to work with clients on resolving E&S issues, recognizing that enforcement of the contract can strain relations with the client. However, these avenues are not a substitute for exercising leverage embedded in the contract. When material non-compliance with core E&S risk management requirements persists, IFC should be prepared to apply its contractual provisions alongside other engagement measures to protect project-affected people and the environment and to uphold E&S standards. The following compliance case examples illustrate this point.

1. CAO’s [compliance investigation](#) of IFC’s investment in Rizal Commercial Banking Corporation (RCBC) in the Philippines found that IFC disbursed funding without assurance that the client had established and was implementing a Performance Standard-compliant Environmental & Social Management System (ESMS), despite this being a material ESAP item. Further, CAO’s investigation found that IFC had repeatedly noted that RCBC’s ESMS was inadequate to meet

Performance Standards requirements, yet IFC did not use its available leverage to secure compliance before releasing funds. Instead, IFC made an additional investment in RCBC and agreed to a new ESAP that extended deadlines for incomplete actions. In its final additional investment in 2015, IFC included a special additional clause that required the client to pay a penalty if it did not improve its E&S performance. IFC subsequently recorded continuing underperformance yet did not trigger the special additional clause.

CAO found that alleged adverse E&S impacts identified by the local complainants who brought the CAO case, including displacement, and harm to health and livelihoods, are likely to have occurred. To date, ESMS implementation gaps remain, with associated risks of further exposure to E&S harm.

2. In its [compliance investigation](#) of IFC’s investment in Alto Maipo, Chile, CAO notes that IFC made disbursements under an “adaptive management” framework to allow for identification and management of risk and impacts during the supervision phase. Though this approach proved effective in certain areas, CAO observed that it was not applied consistently to all issues and that an “adaptive management” approach should not substitute for a project’s Environmental and Social Impact Assessment (ESIA). IFC allowed project E&S assessment delays to persist across several

years (namely, on groundwater infiltration and noise and air impacts) without using its leverage in the form of disbursements and co-lender influence. CAO found that IFC did not operate in accordance with its Sustainability Framework which requires assessments to be carried out within a timeframe that supports the application of the “mitigation hierarchy” to identified impacts. CAO documented that, at the time of IFC’s exit, some of these required assessments were still not satisfactorily completed.

More broadly, CAO found that in multiple projects it investigated, IFC did not exercise its available leverage, such as disbursement conditions, across successive supervision cycles, even as material E&S non-compliance remained unaddressed (see Box 6). In these cases, IFC not exercising available leverage allowed harmful impacts and risks to local communities to persist for extended periods.

Allowing non-compliances to remain unaddressed over multiple supervision cycles in this manner also carries an added risk. It can create a perception among clients and potentially the broader market that IFC’s commitment to implementing its E&S requirements is negotiable, undermining policy credibility and diminishing future influence.

Leverage can be employed through various mechanisms such as withholding a disbursement, accelerating a loan in debt investments, or selling shares in equity investments. While the threat of such actions can prompt change, IFC must follow through if needed not only to maintain credibility with clients but, more importantly, to help clients achieve the E&S outcomes set out in the Performance Standards, thereby safeguarding project-affected people and the environment.

Box 6. Case review: IFC’s incomplete exercise of its contractual leverage

CAO’s review of debt investments in the subset of IFC projects with CAO cases (Subset 1) found that, in 10 investments, IFC had contractual leverage through its Conditions of Disbursement. In nine of these, IFC noted outstanding or inadequately implemented ESAP actions in supervision. In seven of these nine cases, the non-compliance persisted over several years and multiple supervision cycles. Yet IFC exercised its contractual leverage in only two cases.

CAO observed similar trends in equity investments in the sample. Nearly half the equity cases reviewed (three out of seven) featured client shortcomings in implementing ESAP items, but IFC staff explained they had little leverage to compel the client to adopt corrective actions. In forthcoming work, CAO will explore the options for managing E&S issues that materialize once IFC is subscribed to equity investments.

WAY FORWARD

To avoid undermining its ability to implement the Sustainability Policy, IFC should apply the leverage built into investment agreements when warranted.⁶⁰ To this end, IFC should consider establishing clear internal indicators for individual investments, such as client non-compliance over multiple supervision cycles, or the level of risk associated with missing ESAP actions, that trigger heightened oversight and reporting to senior management. This would serve as a disincentive to allowing material E&S non-compliance to persist over multiple supervision cycles. Where proactive support for and engagement with the client at different levels of leadership fails to remedy non-compliance with material E&S risk management measures, IFC should be prepared to exercise its contractual leverage.

4.2 DISBURSING INVESTMENTS IN A SINGLE TRANCHE

Structuring debt investments for disbursement in a single tranche can be appropriate in some circumstances, for example where E&S risks are low or where critical mitigation measures are already completed. However, CAO's review found that in high-risk contexts this approach can substantially reduce IFC's ongoing leverage. In such cases, once funds are fully released, IFC's ability to secure the timely completion of ESAP actions relies more on persuasion than enforceable contractual conditions. To maintain influence in high-E&S-risk projects, multiple-tranche disbursement structures linked to completion of material ESAP milestones remain a core best practice.

In 38 percent (11 out of 29) of debt investments in CAO's extended portfolio sample (Subset 2) of 51 investments with and without CAO cases, IFC structured the investment so that the entire loan

was disbursed in a single tranche, rather than in stages linked to completion of critical ESAP actions.⁶¹ For example, in the compliance investigation of the Awba investment (Myanmar, 2024), CAO found that IFC disbursed the loan in a single tranche, without making disbursement conditional on key ESAP actions. This left IFC with limited leverage to address outstanding E&S issues.

In another example, IFC had an existing relationship with the client and based on the company's previous E&S performance flagged E&S capacity as a key risk when assessing an additional investment.⁶² To manage this risk, IFC committed the company to enhancing its ESMS and improving its E&S capacity through ESAP actions. However, the disbursement was executed in a single tranche. Although the client exhibited improved E&S performance early in this investment, IFC documented a marked loss of E&S capacity two years into supervision. IFC also held equity in this company. Over three years, IFC issued annual recommendations to improve E&S matters but recorded no documented effort by the client to increase its E&S capacity. In its final supervision visit before divesting, IFC noted that no improvements had been observed on these issues. This sequence illustrates how disbursing debt in one tranche, without continuously enforceable ESAP completion milestones or using equity influence effectively, can erode IFC's ability to secure E&S outcomes.

In CAO's extended portfolio sample of 51 investments with and without CAO cases (Subset 2), the core issue that came up repeatedly was not the existence of outstanding ESAP actions, but that material actions essential to meeting Performance Standards were due for completion *after* disbursement milestones. This meant IFC's strongest leverage—conditioning disbursement on completion of actions—was not used.

⁶⁰ CAO refers specifically to Paragraph 24 of [IFC's Policy on E&S Sustainability](#) which states that where clients fail to comply with E&S commitments, IFC will work with the client to bring it back into compliance, and if the client fails to reestablish compliance, IFC will exercise its rights and remedies, as appropriate.

⁶¹ This includes straight debt and convertible loans.

⁶² Where this Advisory Note has not named cases, the compliance investigation is still in progress and not yet publicly disclosed. As such, the case remains confidential at the time this Advisory Note was published.

WAY FORWARD

To avoid recurring mismatches between the sequencing of material ESAP milestones and disbursements, IFC should strive to align disbursement schedules with the sequencing of actions essential to meeting the Performance Standards. Decisions on whether to structure an investment in a single disbursement or in multiple tranches should be explicitly informed by the project's E&S risk profile and the timing of priority ESAP actions. In all cases, aligning disbursement schedules with material E&S milestones is a core means of maintaining leverage until the client demonstrates compliance.

In addition, IFC's leverage over client compliance is significantly affected by how it handles changes to agreed timelines for material E&S deliverables, whether through formal waivers or informal extensions. These decisions alter the timing of mitigation measures, and if not supported by robust control and oversight, can reduce IFC's ability to enforce Performance Standard requirements and protect project-affected people and the environment.

4.3 GRANTING WAIVERS OR EXTENSIONS WITHOUT RECONFIRMING E&S COMMITMENTS TO PENDING ACTIONS

CAO's 2023 publication [Responsible Exit: Insights from CAO Cases](#) highlighted the issue of E&S-related waivers⁶³ and ESAP extensions being granted without a documented analysis of how such delays would affect the communities and environment they were designed to protect.⁶⁴ In Subset 1 of investments with CAO cases (26), IFC granted 10 waivers for

E&S issues. In some of these cases, IFC has clear, documented justifications for granting the waiver and assessed the risks of doing so. For instance, IFC granted a waiver for an ESAP action during a project's operational phase as construction was ongoing and the client had sufficient time to complete the action so the waiver would not carry additional risks.

However, in 4 of these 10 cases in which IFC granted a waiver, it did so while the client's internal E&S risk rating was unsatisfactory or partly unsatisfactory. Granting waivers when clients have significant E&S risks without a robust analysis of the potential impacts of delaying E&S compliance can hinder IFC's leverage and ability to ensure risks are adequately managed. CAO observed that IFC's analysis when granting the waiver often did not include evaluating whether it would still have adequate leverage to compel completion of the E&S actions postponed by the waiver. This omission was significant in some cases because once the project moved forward and funds were disbursed, it is unclear in the project documentation reviewed by CAO whether the waived actions were completed.

For example, in one case IFC documented sustained non-compliance over successive supervision cycles.⁶⁵ By the tenth disbursement, where actions regarding Performance Standard 2 (Labor and Working Conditions) and Performance Standard 6 (Biodiversity Conservation) remained outstanding, the client requested a waiver on their completion. IFC granted the waiver based on the company's agreement to a Supplemental Corrective Action Plan and high-level client commitment but has since suspended disbursements as the client failed to demonstrate progress.

In many projects, CAO also found that extensions to deadlines were granted simply by changing the due dates for ESAP items, rather than using the more

⁶³ A waiver allows a borrower not to comply with specific financial or E&S investment covenants or conditions.

⁶⁴ Refer to [Responsible Exit: Insights from CAO Cases](#) (2023, p. 31), which found that IFC granted waivers for delayed E&S items without an appropriate analysis of how such delays would affect meeting the requirements and affect the communities and environment they were designed to protect.

⁶⁵ Where this Advisory Note has not named cases, the compliance investigation is still in progress and not yet publicly disclosed. As such, the case remains confidential at the time this Advisory Note was published.

formal waiver process.⁶⁶ This held true both in the narrower subset sample of recent CAO compliance cases and in the extended portfolio sample including both CAO and non-CAO projects.

Granting extensions for ESAP items can often be warranted for operational reasons. IFC currently has no system of control for granting clients extensions as it does for granting waivers. Once a deadline for an ESAP item is granted, this action does not show as overdue in IFC systems, even in situations where action items remain incomplete long after the original deadlines in the loan agreement. The new deadlines will appear in IFC's public disclosures with no indication that the deadline was altered. While valid reasons for extensions may often exist, CAO has not seen evidence that these decisions are consistently recorded, supported with rationale, or subject to oversight.

Extensions can also reduce IFC's leverage. Because extensions are common and lack effective oversight, ESAP items may remain incomplete over multiple supervision cycles without attracting sufficient attention.⁶⁷ CAO case experience shows that this can allow priority actions to slip indefinitely, leaving associated impacts and risks unmitigated. Further, there is a lack of transparency to interested stakeholders, who will only see revised due dates or project status on IFC's project disclosure site, not the fact that extensions have been granted.

As with other contractual provisions, timed conditions must be enforced when deadlines arrive—or, if adjustment is unavoidable, the formal waiver process should be used. This approach would provide IFC E&S staff with the opportunity to negotiate a new commitment from the client before money changes hands.

IFC recently updated its ESRP to require escalation and formal justification for the granting of E&S waivers, aiming to strengthen internal accountability and oversight.⁶⁸ The 2025 ESRP update also seeks to enhance E&S staff presence in key decision-making meetings where IFC's leverage could be exercised, specifically requiring the Lead E&S Specialist (LESS) to attend designated investment decision meetings.⁶⁹ IFC will need to monitor whether these changes materially increase the weight given to E&S issues in practice.

WAY FORWARD

When implementing its updated ESRP provisions for E&S waivers, IFC should provide robust guidance on circumstances that warrant granting E&S waivers. This should include requiring documented risk assessments, and ensuring clients commit to completing outstanding E&S commitments in time to prevent or mitigate the adverse E&S impacts and risks the measures were designed to address. For extensions, IFC should strengthen tracking, transparency, and oversight processes to ensure that revised deadlines do not mask persistent non-compliances or erode IFC's leverage over priority deliverables. The granting of waivers needs robust oversight at more senior levels and could benefit from periodic reporting to the Board.

The lessons from this chapter underscore the importance of strong E&S groundwork in closing leverage gaps: robust due diligence, precise ESAP design, anchoring E&S priorities in Conditions of Disbursement, and enhanced oversight during supervision. They also suggest the necessity for enhancing IFC's leverage toolkit throughout the investment life cycle, as explored in the next chapter.

⁶⁶ Technically, this may be an unintended problem with IFC's systems, which can be fixed. E&S specialists can make changes to the due date of an action item that simply overrides the prior due date without the change being visible. IFC's external disclosures then also reflect this new deadline, without marking it as a change. There are often valid reasons to grant extensions and adjust ESAPs to changed circumstances. CAO has not seen evidence, however, that such decisions are systematically recorded, along with rationales, or that they are subject to formal oversight.

⁶⁷ IFC does not track or account for extensions given to project ESAP items.

⁶⁸ These changes responded to CAO's 2023 [investigation report](#) on IFC's investment in Salala Rubber Corp. IFC incorporated several changes in consultation with CAO. Refer to [IFC Management Report and Management Action Plan](#) (2025, p. 38).

⁶⁹ Refer to IFC [Environmental and Social Review Procedures Manual](#) (2025).

5.

Enhancing IFC's Approach to Leverage: Expanding the Toolbox

Contractual provisions form the backbone of IFC's leverage. However, a broader set of instruments—some already in occasional use by IFC—could be deployed more systematically to strengthen influence over clients, especially in complex or high-risk projects and contexts.

This chapter examines additional leverage options. Their applicability varies by financial instrument and project circumstances, and the nature and level of E&S impacts and risks. Not every tool will be relevant to all projects or in any given context, but when selected and sequenced appropriately, multiple tools can be applied in combination to create reinforcing points of influence. Accordingly, the selection and sequencing of options should be considered as part of the unified influence strategy proposed in section 6.

5.1 FINANCIAL INCENTIVES— POSITIVE AND NEGATIVE

In managing E&S risks, IFC's influence over clients depends not only on setting clear requirements but also on establishing the right mix of incentives to encourage and enforce compliance and continuous improvement. Financial incentives, both positive ("carrots") and negative ("sticks"), are essential components of the leverage toolkit.

E&S requirements often involve costs and operational changes that are immediate and tangible for clients, while the benefits—such as avoided impacts and reduced risk, improved community relations, and enhanced long-term sustainability—may be less visible or harder to quantify in the short term. This imbalance can create a tendency for clients to delay E&S actions or deprioritize them, especially when they compete with other business pressures.

A 2025 United Nations Development Programme (UNDP) study on human rights and competitiveness found that "although responsible business practices

entail real upfront costs, they generate operational benefits that, over time, meet or exceed those costs."⁷⁰

Depending on context, positive incentives can help offset short-term costs by providing financial or strategic advantages for timely and effective implementation of measures that improve E&S outcomes. Negative incentives, when appropriate, can ensure there are meaningful consequences for delay, inaction, or non-compliance. While both approaches can be used together, the right mix, and whether a mix is feasible, will vary depending on the circumstances, objectives, and IFC's level of influence over the client. By drawing on a diverse suite of tools, including both positive and negative incentives, IFC can help motivate proactive E&S management and deter neglect.

POSITIVE FINANCIAL INCENTIVES

Positive financial incentives reward or facilitate strong E&S performance by reducing costs, improving access to capital, or providing other tangible benefits when agreed E&S targets are met. Relevant tools (summarized in Table 5) include access to additional financing, interest rate step-downs, technical assistance, and capacity building. All are designed to encourage clients to meet agreed E&S requirements in an accelerated fashion and, where feasible, pursue additional "stretch" actions that deliver stronger sustainability outcomes.

⁷⁰ United Nations Development Programme, *Human Rights vs. Competitiveness—A False Dilemma? Data on the Financial Implications of Corporate Human Rights Performance* (2025, p. 44, box 6).

Table 5. Positive financial incentives to increase leverage, applications, and E&S relevance

Tool	How it works	Typical application	E&S relevance	Considerations/caveats
Staged disbursements/ tranche funding	Release funds in stages when E&S milestones are met.	Debt and some equity (capital calls)	Encourages timely completion of ESAP actions before next funding. Links effective ESAP implementation to disbursements.	Not always feasible in investments where the client requires funds for upfront costs (such as equipment to undertake construction).
Reduced pricing/ interest rate step-downs	Lower interest rate or fees if E&S performance targets are achieved.	Debt	Rewards strong E&S performance over time.	Requires ambitious, material targets and robust verification to avoid greenwashing. In some cases, design may need to avoid moral hazard (to avoid clients choosing to pay higher rates rather than meeting targets).
Technical assistance/ capacity building	Provide grant-funded or in-kind support to help meet E&S requirements.	All instruments	Removes barriers to compliance, especially for low-capacity clients. Can also support stretch actions for clients with strong capacity that need specialized expertise.	Requires increased IFC staffing and resources.
E&S-linked carry (performance- linked compensation)	Link part of a fund manager's carried interest (profit share) to E&S key performance indicators (KPIs).	Private equity and fund investments	Aligns fund manager's financial rewards with E&S outcomes across portfolio companies.	Can be challenging to negotiate in practice; requires well-defined, measurable KPIs.
Revenue-linked incentives	Share in additional revenue or profit if E&S targets are exceeded.	Equity and blended finance	Encourages going beyond minimum compliance.	Exit implications for IFC if the financial return on the investment is reduced below market rate or costs are imposed on an owner of the financial instrument.

Reduced pricing, or interest rate step-downs, reward clients for achieving agreed Sustainability Performance Targets (SPTs) by lowering the cost of capital, typically by a set number of basis points.⁷¹ These targets might include measurable improvements in environmental performance, social outcomes, or governance practices. IFC currently

uses SPTs to incentivize emission reductions, gender, and inclusion and similar issues linked to corporate strategies such as alignment with the Paris Accords on climate change.

Performance Standards compliance is a standard requirement of IFC financing. In this framework,

⁷¹ Basis points refer to one-hundredth of 1 percent of the interest rate.

positive incentives such as reduced pricing are not intended to replace or dilute this obligation. Instead, they can be used to encourage faster achievement of those requirements and, where feasible, to motivate “stretch” actions that deliver enhanced sustainability outcomes beyond compliance.

IFC has followed the market in recent years through Sustainability-Linked Loans (SLLs) and Sustainability-Linked Bonds (SLBs).⁷² These instruments adjust the interest margin (typically by 10 to 25 basis points) based on the borrower's achievement of pre-agreed sustainability targets or milestones. The step-downs reward “good” sustainability performance by reducing the interest rate. Step-ups disincentivize “poor” sustainability performance by increasing it. These targets are not compliance-related but typically represent performance that goes beyond compliance in specific areas.

IFC has applied Sustainability-Linked Loans in investments with corporations and banks, including [Anglo American](#), [Banque Misr](#), [Banco Finandina](#), [Elektro Redes](#), [Iberdrola](#), [Lion's Head Investments](#), and [X-Press Feeders](#) as well as Sustainability-Linked Bonds issued by [BIM Land](#) and [Central Pattana](#), among others. These deals demonstrate IFC's ability to align financing terms with sustainability outcomes, creating an ongoing incentive for clients to meet or exceed agreed E&S targets.

While IFC's use of such instruments is a positive example of extending its leverage options, the

effectiveness of these instruments depends on careful design, including:

- *Materiality of the incentive.* At 10 to 25 basis points, the size of the margin ratchet linked to SPT achievement may be too small to provide a meaningful financial benefit or incentive for some clients, especially in large-scale financing.
- *Selection and ambition of SPTs.* Targets must be based on a credible baseline and ambitious enough to achieve the desired E&S outcome(s).
- *Verification and transparency.* The credibility of these instruments depends on robust, independent verification of SPT achievement, clarity on who conducts the verification, and transparent disclosure of results.⁷³

Failing to address these factors risks “greenwashing” and erosion of market trust.⁷⁴ IFC guidance for project teams should include decision trees regarding how to determine the appropriate rate change and the associated rationale. IFC could also enhance the E&S impact of Sustainability-Linked Loans by applying them at a more granular level. For example, IFC could develop two ESAPs for relevant projects; one specifying the actions required to close gaps between the Performance Standards and client's E&S performance and another to establish stretch actions, which would merit a financial incentive (see Box 7).

⁷² Refer to Loan Market Association, Asia Pacific Loan Market Association, and Loan Syndications & Trading Association, [Sustainability-Linked Loan Principles](#) (2025); and International Capital Markets Association, [Sustainability-Linked Bond Principles](#) (2024).

⁷³ For international financial institutions, stakeholder engagement in verification is a key consideration. Project-affected people and other key stakeholders need to be involved in setting, monitoring, and verifying SPTs.

⁷⁴ Sustainability-Linked Loans (SLLs) and Sustainability-Linked Bonds (SLBs) have drawn widespread concerns about greenwashing, from critics, including the World Bank and the United Kingdom Financial Conduct Authority, highlighting risks such as weak targets, late deadlines, and structural loopholes. Voluntary standards for these products, such as SLL Principles (Loan Market Association) and SLB Principles (International Capital Markets Association), have been updated, but still allow significant flexibility and lack binding governance. For IFC, it is important that these instruments take into account the client's overall E&S footprint.

Box 7. Good practice example: Building positive and negative incentives into ESAPs

IFC does not reward clients for meeting mandatory E&S standards but could incentivize companies to take “stretch” actions via financial incentives such as a reduced interest rate. Such stretch actions could entail, for example, clients achieving certifications, for example certifying organic production of agricultural products, which are not required by, and indeed go beyond, the Performance Standards.

This approach is not unprecedented. For example, CAO reviewed a 2014 investment for which IFC developed two Environmental and Social Action Plans (ESAPs). One specified that if the client implemented stretch actions, as confirmed by IFC staff, the lending rate would be reduced. The other stated that if the client failed to implement the standard E&S actions, the lending rate would increase. Unfortunately, due to currency fluctuations, the client repaid the loan early. Thus, IFC's E&S supervision was cut short before the ESAP was fully implemented. Nonetheless, this investment provides a useful precedent for structuring financial incentives around E&S performance. Clients interested in establishing themselves as market leaders in certain E&S areas may be inclined to implement stretch ESAPs developed by IFC staff with sectoral expertise.

NEGATIVE FINANCIAL INCENTIVES

Negative financial incentives impose a financial cost or restrict financial benefits when a client fails to meet agreed E&S obligations. In IFC's context, these mechanisms can serve two broad purposes.

COMPLIANCE-ENFORCEMENT TOOLS

Indemnities and other provisions for recovering costs: These mechanisms require clients to cover certain costs or reimburse IFC (or third parties) for actions taken to mitigate the client's E&S non-compliance. Depending on how they are structured, these penalties can function both as a compliance-enforcement tool, creating financial consequences for breach, and as a remedy-enabling tool, ensuring funds are available to address harm if it occurs.

IFC has several options for including such tools within its current contractual provisions for E&S issues. The sample of CAO cases reviewed for this paper included provisions stipulating situations that would trigger processes for recovering the cost of issues such as mandatory client-paid additional site visits by IFC and/or E&S consultants, audits, and advisors.

Where IFC identifies significant E&S risk, it should more consistently build additional leverage by including indemnities and other provisions requiring clients to cover costs in contracts. In CAO's view, IFC should also reserve the right to disclose such audits; for example, in situations where the E&S concerns have been raised by local stakeholders.

When including indemnities in legal agreements, IFC must be prepared to enforce the provisions when necessary, or risk undermining its credibility. For example, in IFC's follow-on investment in RCBC Bank in the Philippines, IFC included a provision requiring the client to fund an Advisory Services program if IFC deemed its E&S performance unsatisfactory. After several years during which IFC assisted the client in developing terms of reference for an independent E&S consultant and providing comments on applicants, ESAP implementation remained unsatisfactory.⁷⁵ However, IFC chose not to use its leverage by triggering the provision but rather funded the Advisory Services program itself. IFC made this decision because of the client's resource constraints and IFC's determination that the client was making overall progress on its E&S commitments.

⁷⁵ Refer to CAO, [RCBC Investigation Report](#) (2022, p. 38).

CAO's review of IFC investments associated with CAO cases illustrates why such incentives are necessary. Across the sample subsets, CAO observed cases in which clients were either not committed to implementing their ESAPs or had limited capacity to do so effectively. In one recent compliance case, the client's ESAP was not tailored to the investment but instead included an extensive list of general provisions. Once IFC was invested, the client's lack of commitment to these actions became apparent. However, IFC's financial leverage was limited because IFC disbursed the loan in a single tranche without conditioning any specific E&S requirements. In a situation like this, IFC could increase its leverage by tying material ESAP actions to provisions for recovering costs that automatically trigger if the client does not implement relevant actions within a specified period. This approach would offer IFC a concrete mechanism to maintain its influence to drive E&S performance after funds have been disbursed.

REMEDY-ENABLING TOOLS

CAO compliance cases represent a small proportion of IFC's overall portfolio, however, when the uncommon event occurs and a compliance investigation confirms that non-compliance is related to harm, IFC must be in a position to help ensure that harm is addressed effectively. Because the RAF rests on the principle that the primary responsibility for preventing and remediating harm rests with the client, IFC's role is to use leverage effectively "to encourage clients and other responsible parties to take remedial action to address harm."⁷⁶ Embedding such obligations in client legal agreements and appropriate tools like performance bonds, guarantees, and escrow accounts makes client's remedial responsibilities explicit and enforceable. It secures the means to promptly resolve underlying issues and repair

harms, consistent with the RAF, while also creating a strong financial incentive to avoid non-compliance in the first place. In addition, it enhances client accountability and prevents project-affected people and communities from having to absorb the financial and social costs of non-compliance.

Performance bonds, guarantees, and funded escrow accounts are contractual financial assurance tools that can be used to ensure funds are available to complete agreed actions or to remedy harm. This is particularly relevant in high-risk situations. These mechanisms are already being applied to finance critical ESAP measures such as resettlement, environmental remediation, mine closure, or biodiversity offsets, where noncompletion could cause significant harm to people or the environment. However, IFC clients may be hesitant to agree to performance bonds or escrow accounts that bind client resources for a time. Creative thinking is therefore needed to generate practical and affordable solutions to address gaps in funding for remediation and to explore broadening the use of these existing approaches and their application to new circumstances.

A performance bond is a commitment issued by a bank or insurer guaranteeing that the client will fulfill specific obligations. If the client fails to do so, the bond issuer pays the agreed amount to the beneficiary—for example, IFC—which can then be used to complete the work. In the E&S context, performance bonds are not often used by international financial institutions and regulators to secure environmental rehabilitation, and are limited primarily to mining and other site remediation.⁷⁷ This limited application within international finance contrasts with the routine use of performance bonds in national and public procurement for construction works, where they serve to guarantee completion of contractual deliverables.⁷⁸

⁷⁶ The [RAF](#) also states that under certain circumstances, IFC has a role to contribute to remedy itself. (para. 26, p. 5).

⁷⁷ Refer, for example, to the Oyu Tolgoi Mine in Mongolia, co-financed by IFC and the European Bank for Reconstruction and Development (EBRD). The project required the company to have a comprehensive plan and adequate financial assurance for mine closure and rehabilitation by ensuring that funds would be available for site restoration and monitoring following closure of the mine. Refer to <https://disclosures.ifc.org/project-detail/ESRS/29007/oyu-tolgoi-ltc>.

⁷⁸ Refer, for example, to the [World Bank's Procurement Regulations for Investment Project Finance \(IPF\) Borrowers](#), which mandate performance securities for works contracts (2023, p. 85, para. 2.4); and [FIDIC's Conditions of Contract for Construction](#) (2017, p. 23, para. 4.2). European Union public procurement directives also recognize performance guarantees as a possible safeguard for works fulfilment (EU Financial Regulation 2018/1046, Recital 115).

Guarantees are commitments that secure contractual obligations and thereby enable companies to secure financing for a specific purpose by ensuring a guarantor—for example, a parent company—will cover the costs arising as a result of nonperformance.

An escrow account is a dedicated account into which the client deposits funds, which will be released back to the client on independent verification that agreed milestones have been met. Set-aside funds placed in escrow at the start or during the investment can also enhance IFC leverage on clients or investees to meet agreed E&S requirements (such as installing pollution-prevention equipment, implementing a resettlement plan, or passing an independent safety audit). If the company fails to comply by agreed deadlines, IFC can redirect or retain those funds, including, for example, to pay for remedial measures directly or compensate affected communities, as required, under IFC supervision or in the context of an IFC Management Action Plan (MAP).

In IFC's E&S practice, performance bonds and escrow accounts have been occasionally used, primarily for mine closure, decommissioning, or site remediation—most often where host-country regulators require them.⁷⁹

Performance bonds and escrow accounts could be expanded from their current application in mining projects to other high-risk E&S contexts, such as:

- *Resettlement and/or livelihood restoration obligations*: securing funds to complete land acquisition and livelihood restoration commitments.
- *Biodiversity offsets or long-term conservation management*: funding ongoing maintenance of offset areas or community co-management programs.
- *Pollution prevention and cleanup*: ensuring funds are available to install, operate, and maintain pollution control systems (such as wastewater treatment plants, emissions scrubbers), and to finance remediation if thresholds are exceeded or spills occur. Particularly relevant for high-risk industrial, energy, or port/logistics projects where environmental damage can be costly and difficult to reverse.
- *Community infrastructure promised as part of project agreements*: ensuring delivery of agreed facilities (such as clinics, water systems), particularly in projects with a history of delays.

Other development finance institutions are just starting to explore the possibilities of these tools, as discussed in Box 8.

Box 8. A perspective from other international institutions about financing remedy

Most development finance institutions (DFIs) do not currently require clients to fund the remediation of all E&S harm resulting from their non-compliance with agreed standards directly. (There are some exceptions. For projects requiring resettlement, for example, setting aside funds, including to remediate impacts, is a common requirement). Indemnity clauses in legal agreements are typically limited to reimbursing the DFI for its own costs, such as additional supervision or hiring consultants, rather than covering the actual cost of repairing damage to people or the environment.

In its forthcoming *Guide to Contractual Provisions for Remedy in DFI Financing*, the United Nations Office of the High Commissioner for Human Rights argues that by embedding clear and enforceable remedy provisions within their contracts and financing agreements, DFIs can require clients to address and rectify harm resulting from financed activities. According to the report, these contractual mechanisms empower DFIs to hold clients directly accountable for providing remedies, ensuring that obligations are not merely aspirational but binding and actionable.

⁷⁹ IFC Good Practice Note: Mining Sector EHS (2007, p.24).

Box 9. Case example: lenders and insurers collaborate on E&S risk management

In determining whether to provide insurance coverage for a new hydroelectric power plant, Munich Re considered the environmental and safety risks as well as the project's impact on local communities. At the preconstruction stage, no E&S issues were identified.

During construction, Munich Re's risk engineers visited the site regularly to monitor conditions. During these visits, they noticed issues related to safety and waste management that had the potential to jeopardize workers and the project. Munich Re raised its concerns with the construction company, but conditions did not improve. Therefore, Munich Re decided to collaborate with the finance providers—the insurance cover was mandatory for the credit lines—to demand on-site improvements.

This collaboration between insurance and finance providers increased the pressure on the construction company, resulting in significant improvements at the site.

Source: United Nations Environment Programme, [The 4th Factor: Underwriting for Sustainable Development in Surety Bonds](#) (2018).

Non-life insurance lines that explicitly deal with E&S risks, such as environmental liability insurance, and contractors' pollution liability insurance are other potential tools that could be used to help IFC clients meet Performance Standards. Underwriters may also be willing to collaborate with lenders such as IFC in pushing for risk-reduction measures. Box 9 provides an example of beneficial cooperation between lenders and insurers that enhances the leverage of either.

The mechanisms described in this section could provide IFC with confidence that, if obligations are not met, funds will be available to implement remedy promptly. Their use would need careful structuring to fit local legal frameworks, avoid excessive client liquidity constraints, and clearly define access and disbursement conditions.

WAY FORWARD

Expanding the use of remedy-enabling instruments such as performance bonds and escrow accounts could strengthen IFC's ability to implement the RAF by ensuring that funds are available to address harm in very high-risk investments. Incorporating these tools more systematically, in contexts such as pollution prevention and cleanup, resettlement, biodiversity offsets, and delivery of community infrastructure, would reinforce client responsibility for remedial action, as established in IFC's RAF.

IFC would benefit from exploring their application in different contexts, with a view to broadening their application.

TRANSPARENCY AND DISCLOSURE REQUIREMENTS

Transparency is another form of leverage, influencing client behavior and empowering stakeholders. IFC currently discloses more E&S information than many of its peers. For example, other Development Finance Institutions (DFIs) do not typically disclose E&S information about Category B projects that carry moderate E&S risks.

Public disclosure of ESAPs, their deadlines, and ongoing updates of their implementation status builds trust with affected communities. Public access to accurate and up-to-date information about these matters can also help local stakeholders hold clients accountable.

IFC's Sustainability Framework recognizes the importance of engagement with project-affected people, and Performance Standard 1 requires periodic client reporting on the mitigation actions contained in the ESAP, including communication with affected communities on material changes to ESAP actions of concern to them.⁸⁰

⁸⁰ [IFC Performance Standard 1](#) (2012, para. 36).

Under Performance Standard 1, clients must disclose relevant project information, including the agreed ESAP and mitigation measures, to affected communities prior to implementation, and provide updates when material changes occur. IFC’s role is to verify that disclosures are timely, accurate, accessible, and understandable to those affected. In reviewing project documents for its sample, CAO found that IFC did not systematically document client disclosures of ESAPs to locally affected people.

CAO’s review also found that IFC does not routinely update these ESAPs on its public website during project implementation, even where milestones have been met or extended. Only 15 of the extended portfolio subset of 51 cases with and without CAO cases (Subset 2) were updated with a status indicator on IFC’s website after Board approval. Further, 28 of these investment ESAPs were marked complete in IFC internal documentation and only four were marked complete on the IFC website accessible to stakeholders.

This suggests that IFC project disclosures often reflect the E&S information available before the investment is approved by the Board rather than the current status.

WAY FORWARD

To better utilize transparency as a form of leverage, IFC should:

- Regularly update public disclosure of client ESAP implementation status on the IFC disclosures website, including when individual milestones are met, when they are missed or waived, and when deadlines were extended, and why. Public information should be aligned with internal supervision records.
.....
- Verify and document client-level disclosures to affected communities, including the format, frequency, and accessibility of information.
.....
- Link disclosure requirements to other leverage tools, such as by marking timely and accessible disclosure of updated ESAP information as a condition for disbursement.
.....
- Integrate transparency into co-financing arrangements, seeking agreement with other lenders to adopt consistent disclosure practices.
.....

DISCLOSURES AT EXIT

IFC’s investment in a company is known to send a positive signal—a “stamp of approval”—to other lenders and investors. When IFC exits an investment because of ongoing E&S concerns, some stakeholders have proposed that IFC disclose these reasons, especially where these relate to unsatisfactory client E&S performance. While project-level disclosures at exit present certain legal and practical challenges, aggregated disclosure of the reasons, without identifying individual projects, can avoid proprietary risks. This approach is not unprecedented.⁸¹

IFC’s [Access to Information Policy](#) (AIP) requires public disclosure of the updated status of client ESAP

81 Refer to [Norges Bank’s risk-based divestments](#).

implementation.⁸² This disclosure is also a form of influence. Keeping this status current throughout the investment places the client's compliance record in the public domain. Accurate, timely disclosure strengthens IFC's leverage by empowering communities to monitor commitments, also reducing the risk of disputes. In the context of exit, IFC's website should reflect the most recent ESAP status, providing stakeholders with a timely record.

By embedding transparency into both IFC-level and client-level practice, IFC can strengthen its leverage over E&S performance, empower communities to play an active role in monitoring commitments, and reduce the risk of disputes. Informed stakeholders are better able to engage constructively, identify emerging risks early, and hold clients to account. These are outcomes that benefit IFC, its clients, and the people affected by its investments.

5.2 SYNDICATION AND CO-FINANCING LEVERAGE

Leverage can also be amplified through collective financing arrangements. When IFC acts jointly with other lenders, its influence on E&S performance can be significantly strengthened. Acting as an arranger or anchor investor allows IFC to shape the financing structure and legal agreements so that all participating financiers adopt robust E&S requirements. This collective approach increases the credibility of both positive and negative incentives and can raise expectations about E&S performance for the client and co-financiers alike. It also helps ensure that responsibility for addressing harms resulting from E&S non-compliance is shared among financing partners, reducing the likelihood that IFC will be the sole institution committed to remedial action.

Aligning E&S requirements and enforcement across lenders can make incentives more effective. Any suspensions or conditions affect the whole group,

preventing clients from bypassing obligations by shifting to more lenient lenders.

The benefits of this approach are illustrated by the case of a syndicated loan supporting a large wind farm in Jordan, in which material Operational Health & Safety (OHS) issues surfaced during project supervision. IFC and its co-financiers collectively informed the client that they would hold back subsequent disbursement if certain E&S actions were not taken. The effect was immediate. By the end of that year, the client had demonstrated sufficient improvement in the problem areas to close the gaps the lenders were concerned about. This case demonstrates how coordinated use of a negative incentive—in this case, suspension of disbursements—can be highly effective when all lenders act in concert, and the consequences for the client are clear and credible.

In cases where IFC jointly finances investments, it can increase its leverage through its ability to bring further investment and by banding with other investors with shared E&S objectives to pool resources and influence to achieve those objectives.

In equity investments, IFC always takes a minority stake due to the restrictions in its Articles of Agreement regarding the exercise of managerial control, which can limit its leverage.⁸³ However, co-investment with other shareholders that have aligned E&S objectives can significantly increase influence. Early in the investment process, IFC should assess the potential to form alliances with like-minded co-investors to promote strong E&S performance. This can be achieved through coordinated voting strategies, joint positions on the board, and alignment on shareholder agreement provisions that embed E&S requirements into governance and decision-making processes.

Being a minority shareholder does not mean IFC has no options to use leverage for E&S performance. IFC can enhance its leverage through a variety of strategic approaches even when its direct control is

⁸² IFC [Access to Information Policy](#) (2012, para. 41).

⁸³ [Articles of Agreement, IFC](#) Article III (Section 3(iv)) provides that the Corporation shall not assume responsibility for managing any enterprise in which it has invested and shall not exercise voting rights for such purpose or for any other purpose which, in its opinion, properly is within the scope of managerial control.

limited. Establishing or joining shareholder alliances with others that prioritize strong E&S standards can increase collective influence over company decisions. Minority investors may also negotiate for specific E&S provisions to be embedded in shareholder agreements, such as requiring board-level E&S committees, regular sustainability reporting, or approval rights over certain high-impact projects. By coordinating voting on key resolutions, leveraging reputational influence, and maintaining active engagement with management and other shareholders, IFC can play a pivotal role in driving improved E&S performance within its portfolio companies.

While co-financing and syndication offer clear opportunities to amplify leverage, they also require careful management. Achieving consensus among lenders can be challenging, particularly if co-financiers have weaker E&S standards or different risk appetites, or if E&S conditions and expectations are not clearly documented. IFC currently requires all equity clients to adopt the Performance Standards.⁸⁴ IFC's ability to see through the implementation of this requirement is dependent on its leverage, which increases when IFC partners with like-minded investors or takes a role as arranger or anchor investor. This approach can ensure that robust E&S provisions are embedded in the Common Terms Agreement and promotes the use of shared advisers and joint enforcement actions.

WAY FORWARD

In syndication and co-financing, IFC's leverage depends on its ability to align all financiers around its Performance Standards and agreed incentives. Acting as arranger or anchor investor maximizes leverage by embedding robust E&S provisions in shared legal agreements and ensuring that enforcement actions—from interest rate adjustments to suspension of disbursements—are implemented collectively. Controlling the terms

of reference for a Lenders' E&S Advisor allows for consistent, high-quality monitoring that maintains pressure on the client. In equity investments, alliances with co-shareholders that value high E&S standards can transform limited minority rights into powerful collective influence. Conversely, joining financing without securing alignment risks diluting IFC's ability to see the Performance Standards implemented. Strategic priorities in joint transactions are clear: lead on structuring, secure early alignment with co-financiers, and make collective enforcement a credible and visible consequence for non-compliance.

5.3 BOARD REPRESENTATION AND GOVERNANCE LEVERAGE

While leverage instruments in equity investments differ from those in debt financing, IFC has meaningful tools to promote adherence to the Performance Standards. Beyond financing terms, governance leverage offers a strategic, ongoing influence channel. In equity investments, IFC's ability to nominate directors to investee company boards provides oversight and influence over corporate governance, particularly integration of E&S risk and impact management into strategic decision-making. Board representation allows IFC to influence broader corporate governance, and particularly to promote the integration of E&S risk and impact management into strategic decision-making and to monitor the implementation of ESAPs over the life of the investment. This is especially valuable in equity investments, where leverage linked to disbursements is absent and governance rights become a primary means of influence.

For instance, the United Kingdom's development finance institution, British International Investment (BII), considers board representation to be a key tool for leverage in its investments.⁸⁵ BII's due diligence guidance states that in investments where

⁸⁴ This applies to all relevant equity investments, meaning those that involve E&S risks.

⁸⁵ Refer to <https://toolkit.bii.co.uk/investment-cycle/due-diligence>.

environmental, social and governance (ESG) matters are of strategic importance to the business, it may use its board seat to raise ESG issues and may even establish an ESG subcommittee. BII took this route in its equity investment in Narayana Health in India. The ESG committee then developed an environmental management system, which was implemented across its hospitals. These governance changes led to significant efficiencies in water consumption and cost savings. BII attributes the success of the initiative to organization-wide support, including from senior management.⁸⁶

IFC also nominates individuals to serve as directors on the boards of investee companies.⁸⁷ IFC’s [Nominee Directorship Center](#) supports nominee directors with training and knowledge resources that prepare them to provide oversight of the companies in question, including on E&S risk management. This preparation helps IFC to enable nominee directors to fulfil their fiduciary duties, which for some time now have encompassed oversight of ESG risks as material to long-term business performance, while also advancing IFC’s sustainability objectives, including

compliance with the Performance Standards. To this end, nominee directors can use their position to:

- Ensure E&S risks and opportunities are considered in corporate strategy and capital allocation
.....
- Oversee ESAP implementation and ensure adequate resources are committed; and
.....
- Promote transparent E&S reporting to the board and shareholders.
.....

Directors can influence the investee company to promote sound E&S risk management practices in a number of ways. They can champion the establishment of an E&S committee of the board; oppose or block high-risk decisions where risks have not been adequately mitigated; insist that the client account for potential remedial actions—or, where necessary, provide those remedies—before approving major capital expenditures; or only approve certain transactions after the client has attained E&S compliance. Effective influence depends on several factors, such as the board size and structure, maturity of the company’s governance, and the nominee’s skills and credibility. IFC should ensure that nominee directors are equipped to provide strategic input to help guide the company’s E&S risk management effectively. The degree of E&S alignment with other board members and the company’s ownership structure are other factors that IFC should weigh as it considers equity investments.

⁸⁶ Refer to <https://www.bii.co.uk/en/story/narayana-health>

⁸⁷ Directors are officially appointed by the investee company, then act independently, using their own judgment to make decisions that are in the best interest of the company, rather than representing IFC’s interests.

6.

Designing and Implementing a Unified Leverage Strategy

A unified leverage strategy for investments with significant E&S impacts and risks can help ensure IFC’s E&S influence is coherent, sustained, and responsive to changing or uncertain project conditions. Where leverage points are created in isolation, gaps and inconsistencies may emerge, leaving critical E&S obligations unenforced if one mechanism weakens or becomes impractical.

Integrating contractual conditions, financial incentives, governance influence, relationship-based tools, and operational support from the outset ensures:

- Clear performance expectations are embedded in legal agreements and operational plans
- Obligations are proportionate to E&S risk levels and client capacity
- Tools reinforce one another, so if one form of leverage declines, others remain effective.

This deliberate approach to understanding and building leverage also reduces the likelihood of E&S non-compliance that could lead to harm, thereby lowering reputational risk. Further, it supports the effective application of IFC’s Remedial Action Framework (RAF) by identifying potential issues early and putting contractual mechanisms and resources for remedy in place before they are needed.

These recommendations are not intended to create additional administrative burdens or require a stand-alone document. Instead, they propose consolidating existing E&S analysis, contractual provisions, and operational planning into a single framework, thereby reducing duplication, improving coordination, and strengthening decision-making at key points in the investment cycle. In doing so, they could also help avoid situations in which non-compliance and related harm escalate without timely intervention.

6.1 INTEGRATING MULTIPLE, MUTUALLY REINFORCING LEVERAGE TOOLS THROUGHOUT AN INVESTMENT’S LIFE CYCLE

BUILD E&S LEVERAGE INTO AN INVESTMENT’S DESIGN AND FINANCIAL STRUCTURE

IFC’s ability to influence client E&S performance is strongest when leverage is deliberately built into the operational design and financing structure of an investment from the outset. This should be informed by a leverage strategy that combines multiple, mutually reinforcing tools, including high-quality, costed ESAPs, embedded in legal agreements, and linking material E&S actions to enforceable leverage points. In cases where clients are navigating new or complex E&S mitigation requirements, IFC can also support implementation through targeted advice and engagement (for example, with hand-holding). This approach seeks to ensure that:

- IFC’s expectations about the client are clear from the start and embedded in both legal agreements and operational plans
- Leverage points are sustained beyond initial disbursement/subscription
- Tools reinforce one another so that if one form of leverage weakens, others remain effective

- Strategies are tailored to the investment type and the client's capacity and commitment.

The subsections that follow outline how IFC can put this strategy into operation, drawing on CAO case evidence and good practice examples.

CONDUCT LEVERAGE ASSESSMENTS

The starting point of effective leverage planning is a leverage assessment. Considering E&S risk factors in a comprehensive and integrated way enables the project team to identify and plan to mitigate potential adverse E&S impacts. Reviewing E&S milestones alongside other priorities, the team may, whenever possible, plan for and design ESAPs and contractual provisions in such a way that leverage is available when most needed. With respect to E&S risks, project teams should be able to affirmatively answer the question of what assurances IFC has that the client will meet E&S requirements and address any E&S harm if it occurs. Clear, early answers strengthen contractual readiness, reduce the risk of delay in client responses, and improve the institution's ability to apply the RAF if remedial action becomes necessary.

EMBED E&S COMMITMENTS IN LEGAL AND OPERATIONAL FRAMEWORKS

After conducting a leverage assessment, IFC can embed E&S commitments in the client's legal framework and operational decision-making. This process is iterative, with IFC E&S impact and risk considerations incorporated from the outset of its client engagement and investments structured to match the scale and timing of key E&S risks. Where these two considerations do not align, other leverage tools should be deployed. Options for these situations are discussed in chapter 3 and chapter 5.

In some investments, E&S risks can be uncertain at the time of approval. For example, IFC cited the case

of a road project that covers significant distances. It made more sense to develop resettlement action plans only for upcoming sections of road, to avoid relying on outdated baseline information by the time construction reaches the later stages. In this type of situation, ESAPs should require that risks be identified and relevant studies undertaken to assess potential impacts as soon as feasible and in time for any decision to proceed with construction. Activities with potentially irreversible impacts should not start until those risks are fully assessed and mitigated.

More broadly, in high-risk investments where there are residual risks and/or evolving impacts, IFC can consider requiring the client to set aside contingency funds. Such funds can provide assurance that resources will be available when needed to meet E&S requirements and to address unanticipated harm promptly in any stage of the project cycle.

ANALYZE INFLUENCE AND INSTITUTIONAL RELATIONSHIPS

IFC has also developed guidance for clients to assess leverage options within their supply chains, noting that "analyzing influence and institutional relationships is useful when considering management strategies and can act to reduce or increase leverage."⁸⁸ This type of analysis can also benefit IFC project teams, for example by mapping relationship-based leverage within IFC's own portfolio. Such leverage may exist, for example, where IFC has investments with other members of the same corporate group as the client. Identifying these connections early can help IFC increase influence over E&S outcomes, and where appropriate, coordinate actions across related engagements to address risks or non-compliance.

⁸⁸ IFC, [Good Practice Handbook: Assessing and Managing E&S Risks in Agro-Commodity Supply Chain](#) (2013, p. 12).

USE NUANCE TO FIND FEASIBLE AND EFFECTIVE LEVERAGE TOOLS FOR A PROJECT

The appropriate contractual leverage to use for a given critical E&S measure—whether it should be Conditions of Commitment, Conditions of Disbursement, or other tools, for example—and how it is articulated (including stipulating the necessary evidence to be provided) can greatly affect IFC's willingness to exercise it. For example: will the E&S mitigation measure in question be considered important enough to hold up the investment if not implemented? If not, then it would be counterproductive to anchor it in the contract as a Condition of Disbursement/Subscription. Clarity and explicit indicators setting out what constitutes evidence of fulfillment of a Condition of Commitment or Condition of Disbursement is also critically important to avoid later disagreements with the client or within the IFC project team.

DISCUSS THE LEVERAGE STRATEGY AT THE INVESTMENT REVIEW MEETING (IRM)

For effective oversight and accountability, IFC should document the leverage needs for E&S milestones in the project decision book alongside other outcomes of due diligence. It is good practice to routinely discuss the leverage strategy at the IRM, allowing key actors—including risk, legal, and E&S staff—to evaluate the adequacy and enforceability of proposed leverage points. If the assessment reveals weak leverage, the IRM serves as a forum to address gaps, recommend enhancements, and ensure that appropriate mitigation measures are embedded in legal agreements and operational plans. The adequacy of leverage should be reviewed periodically to track progress and make any adjustments as needed.

ALIGN IFC STAFF INCENTIVES MORE STRONGLY WITH IFC'S E&S GOALS

Interviews with IFC staff and findings from CAO compliance investigation reports indicate that incentives linked to lending volume can outweigh those that emphasize long-term performance, at times creating an imbalance in the trade-off between business targets and E&S risk management. This imbalance can reduce the attention given to E&S safeguards, leading to gaps in leverage, such as missing or unenforceable provisions or incomplete due diligence. As a result, material risks can be insufficiently analyzed before commitment.

Staff transitions can further erode capacity as institutional knowledge is lost and oversight weakens. For example, in a recent CAO compliance investigation, IFC's client supervision was negatively affected by IFC staff turnover. An IEG review of the investment concluded that this resulted in a loss of institutional knowledge about the project and weak oversight of client submittals, which would have uncovered the client's poor E&S performance.

This Advisory Note's findings and the strength of its recommendations are rooted in the experience and suggestions of IFC's E&S staff. Integrating E&S considerations into recognition and resourcing processes can help maintain continuous leverage over clients, reducing the likelihood of high-profile non-compliance, and enhance preparedness to implement the RAF, as needed.

In summary (illustrated by Figure 2), unified leverage planning for operations with significant E&S impacts and risks should:

1. **Integrate multiple tools** proportionate to risk, combining contractual provisions, financial incentives, governance influence, and transparency requirements from the outset.
.....
2. **Lead on alignment** with co-financiers and co-shareholders, embedding robust E&S clauses in common agreements and making collective enforcement credible.
.....
3. **Equip governance representatives** to embed E&S priorities at corporate level, oversee implementation of ESAPs, and block high-risk actions lacking mitigation.
.....

4. **Maintain transparency** by updating ESAP status in public disclosures throughout the investment and at exit.
.....

5. **Align internal incentives** with long-term E&S goals, ensuring continuity of oversight and readiness to act.
.....

By applying these principles consistently, IFC can sustain influence over clients' E&S performance, adapt leverage to evolving contexts, and uphold its commitments under the Sustainability Policy and Performance Standards while improving outcomes for affected people and environments.

FIGURE 2. A UNIFIED LEVERAGE STRATEGY

DUE DILIGENCE

1

ESTABLISH FOUNDATIONS

- Thorough upfront E&S risk and impact assessment
- Thorough assessments of client capacity and commitment
- Develop high quality ESAP

DOCUMENT LESSONS LEARNED TO IMPROVE INSTITUTIONAL LEVERAGE APPROACH

2

USE CORE INSTRUMENTS

- Contractual provisions (e.g. Key E&S milestones linked to contractual levers such as Conditions of Disbursement/Subscription, covenants)
- Existing influence through client relationship (e.g. Repeat business)

3

CONDUCT LEVERAGE ASSESSMENT

- Where leverage is found lacking commensurate to E&S risk, build up leverage with additional tools

4

CONSIDER ADDITIONAL LEVERAGE TOOLS

Relationship-based tools:

- Repeat business through follow-on investment
- Board representation
- Co-Lenders

Remedy-enabling tools:

- Performance Bonds
- Guarantees
- Funded escrow accounts

Financial incentives:

- Positive incentives (e.g. interest rate step-downs for E&S stretch actions)
- Negative incentives (e.g. interest rate step-ups for weak E&S performance)

5

DOCUMENT THE UNIFIED INFLUENCE STRATEGY

SUPERVISION

6

IMPLEMENT THE UNIFIED LEVERAGE STRATEGY

- Integrate the strategy into decision making
- Where clients demonstrate non-compliance, exercise available leverage
- Keep disclosures up to date and comprehensive
- Exit responsibly

7.

Summary of Recommendations and Conclusion

7.1 LEVERAGE ENABLES RISK-TAKING

IFC assumes multiple categories of risks with every investment, including financial, contextual, governance, and E&S risk. When E&S risks are not adequately managed, their costs are often externalized to those who have no ability to influence project decisions—such as affected people and communities, or the environment. These costs can be disproportionate, long-lasting, and difficult to remedy. They can also cause significant reputational damage to IFC and the World Bank Group, undermining trust, weakening future influence, and jeopardizing the institution's ability to mobilize capital and partnerships for development. IFC's primary safeguard for these risks is the application of robust standards and E&S risk management tools, including assessments, ESAPs, ESMSs, and monitoring mandates.

Despite these measures, IFC faces situations where it must convince a reluctant client to adhere to its E&S commitments. In those moments, leverage becomes critical.

The World Bank Group has committed to a 2030 strategy involving an ambitious increase in its mobilization of private capital for development

impact.⁸⁹ Much of this strategy is directed at support for the private sector in fragile and conflict-affected countries. Where IFC operates in such challenging circumstances, leverage is especially critical. IFC's commitment under the RAF to review its scope of leverage—a commitment that coincides with the pending update of the Sustainability Framework—provides a timely opportunity for IFC to incorporate lessons from CAO's compliance investigation findings and strengthen IFC's leverage toolkit for improved E&S outcomes.

CAO's analysis in this Advisory Note supports the conclusion that a more deliberate, comprehensive, and decisive leverage approach would increase IFC's capacity to deliver more robust E&S results across its portfolio. Well-designed leverage aligns IFC and client interests for effective project implementation that fully integrates E&S risk and impact management, upholds IFC's reputation and credibility, and supports the achievement of the World Bank Group mission to end extreme poverty and boost shared prosperity on a livable planet. Ideas and recommendations for making key advancements to this end, grounded in CAO's compliance investigations and good practice examples, are summarized in Section 7.2.

⁸⁹ Refer to [IFC's 2025 Annual Report](#)

7.2 RECOMMENDATIONS TO INCREASE IFC'S LEVERAGE FOR E&S OUTCOMES

1. Strengthening the foundations of IFC's leverage in due diligence

Area/finding

E&S risk identification & assessment

- Robust E&S risk identification and assessment commensurate with risk during due diligence minimizes unforeseen risks and impacts and leads to stronger leverage in supervision.
- Recent IFC updates to its ESRP strengthen risk and impact identification during due diligence.

RECOMMENDATION 1: Strengthen leverage in supervision by ensuring robust E&S risk and impact identification and assessment during due diligence.

Suggestions for “how to”

Options that can be implemented in the short term:

- Diligently implement the strengthened ESRP provisions aligning ESAP items and E&S contractual conditions with relevant milestones in legal agreements.
- Formally review the quality of implementation of the relevant new ESRP provisions two years after adoption.
- Establish a clear “taxonomy” of leverage, and what is counted as leverage beyond contractual covenants (such as relationship leverage, financial or commercial leverage).

Area/finding

Client capacity

- Client capacity and commitment are directly related to E&S outcomes and are a key factor in securing compliance with the Performance Standards because lower-capacity clients require greater support.
- The client relationship is strengthened when IFC is available to support the client experiencing E&S challenges. This in turn increases IFC relationship-based leverage with the client.
- Constraints on IFC staff capacity limit this support.

RECOMMENDATION 2: Improve client E&S performance by providing more support for clients.

Suggestions for “how to”

Options that can be implemented in the short term:

- Assess client E&S capacity at appraisal and integrate it into investment design and risk strategy, looking at the client's track record across all business operations.
- Do not reinvest in clients with a history of unimplemented mitigation measures or clients that do not address material non-compliances.

Medium-/longer-term actions:

- Develop a strategy for working with low-capacity clients, including strategies and tools for maintaining adequate leverage and adequate resourcing.
- Enable specialists to increase engagement with clients during implementation to build capacity and relationship-based leverage alongside contractual enforcement.
- Expand IFC's E&S Advisory work.
- Leverage IFC's E&S knowledge/expertise and its convening power by providing platforms for peer-to-peer learning among IFC clients.

Area/finding

Quality ESAPs

- The clarity, specificity, and relevance of ESAPs are directly tied to IFC's ability to supervise client performance.
- IFC routinely anchors priority mitigation actions in investment agreements' Conditions of Disbursement and other contractual levers.
- Reporting requirements are critical as adaptive management relies on timely information.

RECOMMENDATION 3: Ensure ESAPs are consistently of high quality and their current status periodically disclosed to local communities (by clients) and the public (by IFC) throughout the project life.

Area/finding

Exits

- CAO case experience shows many instances of E&S non-compliances not being resolved at the time IFC exits an investment. Frequently, a lack of leverage is the stated reason in Management Action Plans (MAP) why project-level remedies are not achievable.

RECOMMENDATION 4: Exit responsibly by addressing E&S concerns proactively and systematically planning ahead for leverage.

Suggestions for "how to"

Options that can be implemented in the short term:

- Carry out quality assurance for ESAPs across investments and regions to ensure that they address the key impacts and risks; and are clear, costed, measurable, and linked directly to enforceable contractual requirements.
- Support E&S specialists with guidance and on-the-job learning/mentoring for strong and consistent ESAPs.
- Conduct time/sequencing studies to make decision-critical information available at the defined milestone (such as investment approval, disbursement, or financial close).

Medium-/longer-term actions:

- Review reporting requirements and templates to ensure timely reporting of E&S incidents and complaints, giving IFC the chance for early resolutions and adaptive management.

Suggestions for "how to"

Options that can be implemented in the short term:

- Track and disclose the reasons for exits driven by E&S concerns at least annually in aggregate to send a signal to the market.
- Diligently implement IFC's Approach to Responsible Exit.

Medium-/longer-term actions:

- Implement a unified leverage strategy → refer to recommendation 11.

High-impact options that require high-level commitment to implement:

- Externally audit IFC's implementation of its Approach to Responsible Exit, sharing lessons learned with the Board and CAO and adapting the Approach based on these learnings and stakeholder feedback.

2. Closing the gaps in IFC's current leverage practice

Area/finding

Not employing available leverage:

- In sampled CAO cases, contractual rights were frequently available but not used over multiple supervision cycles even where there were ongoing non-compliances.
- IFC runs the risk of signaling to clients that E&S requirements are negotiable and not a priority.

Disbursing investments in a single tranche

Granting waivers/extensions without renegotiating commitment to waived actions

RECOMMENDATION 5: Review IFC's systems and incentives to address practices that diminish IFC's leverage and actively promote consistent building and use of leverage in situations of repeat non-compliances.

Suggestions for "how to"

Options that can be implemented in the short term:

- Set up internal systems, controls, and incentives to:
 - ✓ Avoid single-tranche disbursements where there are significant E&S impacts and risks.
 - ✓ Apply leverage consistently when persistent, material non-compliance with IFC Performance Standards is identified, avoiding tolerance for multi-year non-compliances.
 - ✓ Track, disclose, and oversee the use of extensions for ESAP items.
 - ✓ Require explicit rationales, risk assessments, and strategies to manage them when considering waivers and/or extensions to ESAP actions to mitigate the reduced leverage and decision for accepting higher levels of E&S risk.
 - ✓ Formally review the use of these oversight systems after 2 years of use.

High-impact options that require high-level commitment to implement:

- Develop clear guidelines/decision-support tools for decision makers who may need to balance competing priorities when determining whether and how to use available leverage (such as the E&S risk appetite framework).

3. Expanding IFC's leverage toolbox

Area/finding

Remedy-enabling instruments:

- IFC repeatedly identified having no leverage with its clients as the reason not to be able to bring about remedial actions in the MAP processes. IFC requires additional tools to help extend its leverage beyond the early project phases.

RECOMMENDATION 6: Explore and pilot new tools to ensure funds are available for clients' E&S mitigation and to provide remedy where appropriate.

Suggestions for "how to"

Options that can be implemented in the short term:

- Embed client obligations to provide remedy in client legal agreements to operationalize the RAF by making the client's remedial responsibilities explicit and enforceable.

Medium-/longer-term actions:

- Pilot new approaches and the use of new leverage tools such as performance bonds or escrow accounts.
- Map out the sectors and regions where such tools are already in use, and make this information available to project teams.

Area/finding

Financial incentives

RECOMMENDATION 7: Provide carefully calibrated financial incentives for E&S performance goals that go beyond E&S compliance.

Suggestions for "how to"

Options that can be implemented in the short term:

- Where feasible, design performance-linked interest rate adjustments that reward strong E&S performance or penalize inadequate performance, with care to avoid "greenwashing" or moral hazard.

Reduced pricing/interest rate step-down

- Pilot use of financial incentives such as performance-based interest rate step ups/downs with clients that seek to establish themselves as market leaders.
- Provide guidance for project teams that includes decision trees regarding how to determine the right rate change and the associated rationale.

Indemnities and other provisions for recovering costs

- Include indemnity clauses and other provisions for recovering costs in all contracts for investments with significant E&S risk, allowing IFC to recover costs incurred in addressing harm, with provisions for disclosure of any audits undertaken as an exercised indemnity.
- When triggering an audit, reserve the right to disclose it, as appropriate: for example, in situations where the E&S concerns were raised by local stakeholders or are subject to a CAO dispute resolution process.

Area/finding

Transparency

- IFC project disclosures often document outdated E&S information not changed since the time the investment was approved by the Board. FC can strengthen its leverage by enabling communities to play an active role in monitoring commitments. Informed communities are better able to engage constructively and identify emerging risks early.

RECOMMENDATION 8: Maximize disclosure of E&S information in accessible format to support the local communities' ability to engage with the client company, and to hold the company to account for commitments made.

Suggestions for “how to”

Options that can be implemented in the short term:

IFC disclosures

- Consistently disclose relevant E&S information such as E&S impact assessments, ESAPs, and specialized studies.
- Disclose up-to-date ESAP implementation status, including when E&S milestones are met; when they are missed or waived; or when the deadlines were extended, and why.
- Link disclosure requirements to other leverage tools, such as by marking timely and accessible disclosure of updated ESAP information as a condition for disbursement.

Work with clients/client disclosures

- Verify and document client disclosures to affected communities.

Medium-/longer-term actions:

- Make use of technological advances such as QR codes to enable communities' access to grievance response mechanisms.

Area/finding

Syndication and co-financing

- When IFC leads as arranger or anchor investor, it can embed robust E&S obligations in Common Terms Agreements, promote shared E&S advisers, and coordinate joint enforcement.
- Effectiveness depends on lender alignment on E&S standards. CAO cases show that diluted standards in syndication weaken leverage, contributing to performance gaps and non-compliance.

RECOMMENDATION 9: Maximize opportunities to embed robust E&S provisions in syndicated or co-financed investments.

Suggestions for “how to”

Options that can be implemented in the short term:

- Seek opportunities to act as lead arranger or anchor investor to embed robust E&S provisions in the Common Terms Agreement.
- Promote the use of shared advisers and joint enforcement actions.
- Coordinate voting strategies, joint positions on the board, and alignment on shareholder agreement provisions with like-minded investors that embed E&S requirements into governance and decision-making processes.
- Systematically apply strong syndication leverage to preserve IFC influence, maintain contractual alignment, and coordinate joint enforcement of project E&S requirements.
- Integrate transparency into co-financing arrangements, seeking agreement with other lenders to adopt consistent disclosure practices.

Area/finding

Board representation/ governance

- Director nominee fiduciary duties are now understood to encompass oversight of environmental, social, and governance (ESG) risks as material to long-term business performance.

RECOMMENDATION 10: Leverage IFC-nominated directors to enhance E&S performance.

Suggestions for “how to”

Options that can be implemented in the short term:

- Ensure IFC-nominated directors are prepared to advance E&S priorities in corporate governance, monitor the client’s E&S risk management strategy and practice, and support strategic oversight of remedial responsibilities.

4. Formalizing and unifying IFC's strategy for leverage across all its investments

Area/finding

Unified leverage strategy

- IFC's ability to influence client E&S performance is strongest when leverage is deliberately built into the operational design and financing structure of an investment from the outset.

RECOMMENDATION 11: Develop and continuously assess and update a leverage strategy for investments with potentially adverse E&S impacts.

Suggestions for "how to"

Options that can be implemented in the short term:

- Making risk-based leverage assessments a standard step in IFC's due diligence procedures.

Medium-/longer-term actions:

- Provide systems, guidance, incentives, and training for IFC project teams to:
 - ✓ develop a leverage strategy that combines multiple, mutually reinforcing tools, including high-quality, costed ESAPs, embedded in legal agreements, and linking material E&S actions to enforceable leverage points.
- Collect data during thorough pre-investment due diligence to gauge client commitment and capacity, available leverage, and E&S risk level, to craft a leverage strategy.
- Document the leverage strategy in the investment decision book and discuss it at the Investment Review Meeting (IRM) in an integrated manner alongside other IFC leverage needs whenever leverage is weak.

Note: E&S = environmental and social; ESAP = Environmental and Social Action Plan; ESRP = E&S Review Procedures; MAP = Management Action Plan.

7.3 CONCLUSION

CAO's analysis shows that when leverage is weak, unused, or lost, IFC's ability to encourage E&S policy compliance, prevent harm, and deliver remedy through the RAF is significantly reduced. This Advisory Note recommends that IFC strengthen the foundations of its leverage in due diligence, close gaps in current leverage practice, expand its leverage

toolbox, and formalize and unify its leverage strategy across all its investments. Such steps will position IFC to sustain influence and meet its institutional commitments to support clients in anticipating and addressing E&S impacts and risks, and in managing these throughout the life of its investments.⁹⁰

⁹⁰ IFC [Policy on E&S Sustainability](#) (2012, para. 27).

Appendix A. Methodology

CAO employed a mixed methods approach to this analysis, carrying out a desk review of IFC project and CAO case documentation, a review of relevant operational guidance and innovative practices at other financial institutions, and interviews with IFC staff and external experts.

DESK REVIEW—METHOD AND SAMPLING:

APPROACH

This Advisory Note was initiated in response to CAO compliance investigations identifying IFC's use of leverage as a persistent underlying factor leading to non-compliance and to a number of instances where Management Action Plans (MAPs) were limited because of a lack of leverage.

CAO acknowledges that the complaints it receives from project-affected people relate to a small portion of IFC's wider portfolio. At the same time, projects that have gone through the CAO process yield important insights into why some projects become subject to complaints, and how to prevent related impacts and potential harm.

While complaint-related projects provided a critical starting point for the analysis, CAO deliberately expanded the sample to include projects that had **not** been subject to the CAO process. These non-CAO projects were selected to broaden the understanding of IFC's leverage practices beyond circumstances associated with complaints. Specifically, they enabled inclusion of good practice examples identified by IFC and additional projects chosen to improve diversity across sectors, regions, financial products, and approval dates. This deliberate inclusion facilitated more balanced comparisons between projects with complaints and those without, thereby strengthening the evidence base for identifying lessons and formulating recommendations.

The desk review provided the primary analytic foundation for this study, enabling both cross-case comparison and pattern identification.

SOURCES REVIEWED:

For each project under desk review (subject to availability), CAO examined a comprehensive set of CAO, IFC and relevant client documentation.

CAO DOCUMENTS:

Complaint submissions and supporting materials from project-affected people; CAO assessment reports; compliance appraisal reports; compliance investigation reports; dispute resolution documentation; Monitoring Reports; relevant correspondence between CAO, IFC, and complainants; and CAO internal case tracking data.

IFC DOCUMENTS

Board Reports; Environmental and Social Review Summaries; Environmental and Social Review Documents; Environmental and Social Risk Ratings; legal agreements and Environmental and Social Action Plans (ESAPs); Shareholders Agreements (where applicable); Investment Review Documentation; Development Outcome Tracking System (DOTS) entries; Project Supervision Reports; documentation of Broad Community Support; E&S peer review records; disbursement checklists; Conditions Precedent checklists; Annual Monitoring Report reviews; waiver memos; exit memos; Independent Evaluation Group (IEG) reviews; relevant IFC–client correspondence.

CLIENT DOCUMENTS

Environmental and Social Impact Assessments; Action Plans (e.g., Resettlement Action Plans, Indigenous Peoples Development Plans); Annual Monitoring Reports; Sustainability Reports; disbursement requests; waiver requests.

DATA COLLECTION

Over 100 structured data points were captured per project, ranging from basic characteristics (e.g., sector, IFC investment duration, repeat client status) to specific operational elements (e.g., whether IFC identified client E&S capacity/commitment as a risk during appraisal; whether ESAP items were due after first disbursement; percentage of loan disbursed in initial tranche; inclusion of ESAP compliance as a condition of all disbursements).

SAMPLING FRAMEWORK

For the purposes of this analysis, CAO developed a composite sample, referred to throughout this report as the Sample, of IFC projects. The Sample was assembled in three stages, resulting in three subsets with distinct selection criteria. Together, these subsets provided breadth and depth, encompassing complaint-related projects, projects across different sectors and examples of strong E&S practice, and projects subject to recent compliance investigations.

The subsets are not mutually exclusive. Some projects appear in more than one subset where they meet multiple criteria. This overlap was intentional, enabling both cross-subset comparison and consistency in identifying lessons.

SUBSET 1: CAO CASES

The first subset comprised IFC projects subject to complaints filed with CAO. Selection criteria were as follows:

- **Timeframe:** All complaints received from FY18 to FY24 that had passed the assessment stage were considered.⁹¹
- **Framework adoption filter:** Projects with IFC approval dates prior to the adoption of the 2012 Sustainability Framework were removed.
- **Positive example inclusion:** One project was reintroduced to ensure inclusion of a strong example of IFC E&S risk management.

This process resulted in set of 26 projects, broken down by CAO process status at the time of sampling:

- ✓ 7 cases with completed compliance investigation reports
- ✓ 8 cases closed after compliance appraisal

⁹¹ One case in this sample has a CAO complaint received in FY16 (before the FY18 cutoff). This case was added to the sample because IFC had invested in the corresponding project using both debt and equity instruments, which increased the diversity of the sample to resemble IFC's portfolio mix more closely therefore improving the applicability of CAO's recommendations.

- ✓ 1 case closed after deferral
- ✓ 2 cases closed after dispute resolution
- ✓ 1 additional case with a completed compliance investigation
- ✓ 7 cases undergoing investigations at the time of sampling

This group of 26 projects is referred to as Subset 1 and represents IFC projects that share the characteristic of having generated complaints from project-affected people, which were submitted to CAO.

SUBSET 2: EXPANDED PORTFOLIO SUBSET INCLUDING GOOD PRACTICE EXAMPLES

To broaden the scope beyond complaint-related cases, CAO invited IFC to identify projects exemplifying strong E&S performance. IFC proposed 13 good practice projects, diversified across product type, region, and sector.

PORTFOLIO MAPPING

To get a sense of whether the sample of projects was broadly representative of IFC's portfolio, CAO mapped the projects of subset 1 and the 13 good practice examples against project characteristics such as product type (e.g. loan, equity), project region and sector.

This mapping showed that there were remaining gaps in terms of sector, region and financial product diversity. CAO therefore selected 12 additional projects without CAO cases, adding primarily equity investments, financial intermediary investments and more recently approved projects.

When combined with the 26 projects from Subset 1, this group totaled 51 IFC projects. For this subset, CAO applied the same comprehensive desk review

as for Subset 1, collecting more than 100 data points per project.

This combined group is referred to as Subset 2 and constitutes the core group of non-CAO related projects for cross-comparative analysis.

SUBSET 3 – DEEP DIVE OF RECENT COMPLIANCE INVESTIGATIONS

The third subset involved a focused review recently published compliance investigation reports to examine the relationship between IFC's leverage practice and non-compliance findings.

Selection criteria:

- Compliance investigation reports published since FY20.
- Two reports relating to one IFC project were combined to avoid double counting.

Seven of these projects had already appeared in Subsets 1 and 2; eight were unique to Subset 3. The resulting set consisted of 15 IFC projects linked to compliance investigations.

In this subset, CAO reviewed only the published investigation reports and associated Management Action Plans (MAPs).

This focused group is referred to as Subset 3.

These subsets are detailed below:

Subset	Criteria	Number of Projects	Overlap	Date Range
1 – CAO Cases	CAO complaints received between FY18–24, post-2012 approval, passed assessment	26	7 overlap with Subset 3	CAO complaints received between FY18-24 ⁹²
2 – Expanded Portfolio	Subset 1 + 13 good practice + 12 gap-fill projects	51	Includes Subset 1 projects	IFC projects approved since the adoption of the FY12 Sustainability Framework ⁹³
3 – Compliance Investigations	Published compliance investigations since FY20	15	7 overlap with Subset 1/2	Compliance investigation reports published since FY20

INTERVIEWS WITH IFC STAFF

CAO held several consultations with IFC staff, including both E&S and non-E&S investment teams and risk officers, to check the veracity of the findings from the desk review and learn more about leverage in practice.

INPUTS FROM OTHER EXPERTS

To provide further context for this Advisory Note's research findings and recommendations, CAO formed a group of expert advisors. Throughout the report development, CAO consulted with this group with expertise in legal, financial, and operational areas, all with practical knowledge of the World Bank Group and the development finance institution (DFI) landscape more broadly.

The group of expert advisors:

Glen Armstrong

Honorary Professor, *University College London*

Former Head, E&S Review, *IFC*

Former Senior Advisor, Sustainable Development, *IFC*

David Harris

Former Director and Deputy General Counsel, *IFC*

David Hunter

Professor Emeritus, *Washington College of Law American University*

Ramanie Kunanayagam

Chairperson, Compliance Review Panel, Accountability Mechanism, *Asian Development Bank*

⁹² One case in this sample has a CAO complaint received in FY16 (before the FY18 cutoff). This case was added to the sample because IFC had invested in the corresponding project using both debt and equity instruments, which increased the diversity of the sample to resemble IFC's portfolio mix more closely therefore improving the applicability of CAO's recommendations.

⁹³ With the exception of one case as initial research demonstrated its merits as a positive example of IFC E&S risk management therefore CAO decided to keep it in the sample.



Appendix B. Details of CAO Cases Presented in Table 2

CAO examined 16 CAO compliance investigation reports published since FY20; the investigations relate to 15 IFC clients/projects. The table that follows summarizes key data from these clients.

Table B.1. Key data: Prevalence of issues restricting IFC leverage

This table lists relevant CAO compliance cases exemplifying issues that can limit IFC leverage use and their prevalence.

General area	Data point/example	No. of CAO cases	Cases
E&S risk assessments	CAO's compliance investigation found that IFC's pre-investment E&S risk assessment was inadequate or lacking.	13/15	<ul style="list-style-type: none"> • Egypt: Alex Dev Ltd-01, 02, 03 • Philippines: RCBC-01 • Liberia: Salala Rubber Corporation (SRC)-01/Margibi & Bong Counties • Kenya: Bridge-01, 04 • South Africa: Lonmin-02 • Myanmar: Awba Group-01 • Jordan: Masdar Baynouna-01/East Amman • Chile: Alto Maipo-01, 02 • Peru: Yanacocha 09/Cajamarca • Costa Rica: Reventazon HPP-01-02 • Guatemala: CIFI-01/ Hidro Santa Cruz • Georgia: Adjaristsqali Georgia LLC • Ukraine: Axzon-01/Halych and Kalush
Leverage	Investment ESAP was designed with action(s) due after IFC financing had been disbursed/ subscribed.	11/15	<ul style="list-style-type: none"> • Egypt: Alex Dev Ltd-01, 02, 03 • Philippines: RCBC-01 • Liberia: Salala Rubber Corporation (SRC)-01/Margibi & Bong Counties • Kenya: Bridge-01, 04 • Myanmar: Awba Group-01 • Chile: Alto Maipo-01, 02 • Nigeria: Eleme-01 • Costa Rica: Reventazon HPP-01-02 • Guatemala: CIFI-01/ Hidro Santa Cruz • Georgia: Adjaristsqali Georgia LLC • Ukraine: Axzon-01/Halych and Kalush
	CAO compliance investigation found that IFC disbursed (debt) and/or subscribed (equity) while the client had incomplete or inadequate ESAP delivery.	9/15	<ul style="list-style-type: none"> • Egypt: Alex Dev Ltd-01, 02, 03 • Philippines: RCBC-01 • Liberia: Salala Rubber Corporation (SRC)-01/Margibi & Bong Counties • Myanmar: Awba Group-01 • Jordan: Masdar Baynouna-01/East Amman • Chile: Alto Maipo-01, 02 • Guatemala: CIFI-01/Hidro Santa Cruz • Georgia: Adjaristsqali Georgia LLC • Ukraine: Axzon-01/Halych and Kalush

General area	Data point/example	No. of CAO cases	Cases
Exits	IFC exit occurred during an active CAO process.	10/15	<ul style="list-style-type: none"> • Egypt: Alex Dev Ltd-01, 02, 03 • Liberia: Salala Rubber Corporation (SRC)-01/Margibi & Bong Counties • Kenya: Bridge-01, 04 • South Africa: Lonmin-02 • Myanmar: Awba Group-01 • Chile: Alto Maipo-01, 02 • Peru: Yanacocha 09/Cajamarca • Costa Rica: Reventazon HPP-01-02 • Guatemala: CIFI-01/ Hidro Santa Cruz • Ukraine: Axzon-01/Halych and Kalush
	IFC stated that it had little influence over the client as the reason for not being able to affect project-level actions in CAO compliance cases that involved exit.	6/10 ^a	<ul style="list-style-type: none"> • Egypt: Alex Dev Ltd-01, 02, 03 • Liberia: Salala Rubber Corporation (SRC)-01/Margibi & Bong Counties • South Africa: Lonmin-02 • Myanmar: Awba Group-01 • Chile: Alto Maipo-01, 02 • Guatemala: CIFI-01/ Hidro Santa Cruz

Note: E&S = environmental and social; ESAP = Environmental and Social Action Plan

a. Ten (10) refers to the 10 cases in which an exit occurred during an active CAO process.

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