MONITORING REPORT

CAO Audit of IFC

C-I-R9-Y10-F135

October 10, 2014

Monitoring of IFC's Response to:

CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries

Office of the Compliance Advisor Ombudsman (CAO)
for the
International Finance Corporation (IFC)
Multilateral Investment Guarantee Agency (MIGA)
Members of the World Bank Group

About the CAO

The CAO's mission is
to serve as a fair, trusted, and effective independent recourse mechanism
and thus
improve the environmental and social performance of IFC and MIGA.

CAO (Office of the Compliance Advisor Ombudsman) is an independent post that reports directly to the president of the World Bank Group. CAO reviews complaints from communities affected by development projects undertaken by the two private sector lending arms of the World Bank Group, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

For more information about CAO, please visit www.cao-ombudsman.org

Introduction

1. The CAO compliance function oversees investigations and audits of IFC and MIGA with a view to improving the environmental and social (E&S) performance of the institutions.

2. Following a CAO compliance investigation or audit, CAO may determine that it is necessary to monitor actions taken by IFC or MIGA until such actions assure CAO that its compliance findings are being addressed.

3. This report documents CAO's monitoring of its *Audit of a Sample of IFC Investments in Third Party Financial Intermediaries* (the FI Audit), published in February 2013.[1]

4. This report also references CAO's August 2014 Investigation of IFC Environmental and Social Performance in relation to: *Investments in Banco Financiera Comercial Hondureña S.A.* (the Ficohsa Investigation).[2] References to the Ficohsa Investigation are incorporated on the basis that IFC has stated that it is addressing the findings of the Ficohsa Investigation through the Action Plan it developed in response to the FI Audit.[3]

Background and Key Audit Findings

5. A large portion of IFC financing is delivered through third parties: so-called financial intermediaries (FIs) such as banks, insurance companies, leasing companies, and private equity funds. FIs provide finance to "sub-clients" through a range of financial products. IFC defines these investments as financial sector or financial market investments, as opposed to direct investments in projects or project operators.

6. In June 2011, the CAO vice president triggered a compliance audit of a sample of IFC FI investments.[4] The decision to undertake the FI Audit was taken in light of concerns that affected people may face difficulties in bringing the environmental and social impacts of FI investments to CAO's attention.[5] Also relevant in the decision to conduct the audit was the growth of IFC investments through FIs.[6] When the FI Audit was commenced, FI investments

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[1] CAO, Audit of a sample of IFC Investments in Third Party Financial Intermediaries (FI Audit). For further details see: www.cao-ombudsman.org/newsroom/archive/documents/Audit_Report_C-I-R9-Y10-135.pdf
[2] CAO, Investigation of IFC's Investments in Banco Ficohsa (Ficohsa Investigation). For further details see: http://www.cao-ombudsman.org/cases/case_detail.aspx?id=209
[3] IFC, Official Response to CAO's Investigation of IFC's Investments in Banco Ficohsa. For further details see: www.cao-ombudsman.org/cases/document-links/documents/IFCResponsetoCAOregardingFicohsa_July142014.pdf
[4] CAO, Appraisal of IFC's Investment Projects in the Financial Sector (FI Appraisal), June 27, 2011. For further details see www.cao-ombudsman.org/newsroom/archive/documents/IFCpresentationforCODE-ESRMforFIs-final.pdf
[5] FI Appraisal*,* p.5.
[6] *Ibid.*

constituted more than 40 percent of IFC's portfolio. IFC's FI business continues to grow, with new commitments amounting to more than $10 billion in a disbursed portfolio of more than $14 billion in fiscal year (FY) 2014.[7]

7. In August 2011, CAO issued Terms of Reference (TOR) for the FI Audit. The TOR required CAO to focus on a sample of IFC financial sector projects. In all, CAO identified 844 FI investments at the time, of which 63 were sampled for more detailed review. CAO based its audit on a review of IFC documents, interviews with a variety of IFC staff and client staff, staff of other development finance institutions (DFIs) with which IFC co-invests, and visits and interviews with sub-clients.

8. CAO's FI Audit noted that IFC's approach to the management of E&S risk in its FI investments is focused on the requirement that clients implement an environmental and social management system (ESMS).[8] The FI Audit concluded that, while generally processing FI investments in compliance with applicable E&S policy and procedural requirements, IFC lacked a robust methodology for determining whether the implementation of an ESMS by an FI client would achieve IFC's commitment of "doing no harm" and improving E&S outcomes at the sub-client level.[9] In this context, the FI Audit raised concerns that the end use of IFC funds by FI clients was opaque and as such that IFC knew little about the potential E&S impacts of its financial sector lending.[10] While acknowledging recent improvements, the FI Audit also noted that IFC's approach to the assessment of capacity and commitment of FI clients to implement its E&S requirements was insufficiently structured and did not engage with the extent of change required to achieve its intended results.[11]

[7] IFC, Annual Report 2014.
[8] FI Audit, p.37.
[9] FI Audit, p.36 & 41.
[10] FI Audit, p.25f.
[11] FI Audit, p.38.

9. The FI Audit, released in February 2013, set out 11 key findings as follows:

CAO Finding No.	Findings of CAO's Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries
4.1	IFC's E&S processes and results do not fully correspond to IFC's overall corporate message. The IFC approach, which is based on achieving change through the application of a management system, does not generate information about actual E&S results at the sub-client level.
4.2	There is a lack of clarity about when IFC's two different concepts of E&S risk [do no harm and credit risk] apply, thus creating the possibility that IFC's systems do not effectively minimize environmental or social harm that may result from the action of clients or sub-clients.
4.3	There is a lack of clarity about IFC's actual E&S objectives. In addition, there is not a systematic approach to assessing whether the two broader objectives [do no harm and have a positive impact] are being achieved. The current approach is focused on confirming that clients have implemented an ESMS.
4.4	Differing E&S requirements of the various development finance institutions place a burden on IFC's clients and fail to take advantage of potential opportunities to increase the efficiency and leverage of the DFIs, individually and collectively.
4.5	There are potential opportunities for IFC to encourage the adoption of a widely shared vision of industry standards for acceptable E&S practices, behavior, and results. Requiring clients to report and disclose E&S performance and to engage third-party assurers to provide an independent check would further contribute to the propagation of global norms, while improving disclosure.
4.6	IFC's focus on establishing a ESMS as a legally required product—instead of as part of a more fundamental change management process—creates the risk of a reporting and compliance orientation on the part of the client. This focus, in turn, means that the ESMS can become an end in itself, rather than a means of enhancing E&S performance outcomes on the ground.
4.7	IFC's E&S requirements have not been adequately adapted for financial markets (FM) clients and are thus not optimally designed to assist FM clients in improving the E&S performance of their sub-clients.
4.8	IFC does not have a structured approach to assess and address two key elements of a successful E&S program: client commitment and client capacity to implement an effective E&S management system.
4.9	IFC's current approach to the application of E&S issues to financial markets transactions does not adequately reflect the significant differences in client capacity and the business, institutional, and cultural setting in which they operate.
4.10	The deployment of high quality E&S staff to work on FM investments in recent years has had a material impact on the quality of support provided to clients. However, this has yet to address the underlying limitations of the ESMS-based approach to E&S management.
4.11	IFC's allocation of E&S resources is not cost based. IFC does not have an adequate system in place to determine whether E&S resources are being used efficiently, or whether certain functions should be outsourced.

IFC Response to the Audit

10. In February 2013, the CAO published the FI Audit together with an official response from IFC. While welcoming the FI Audit as providing an independent perspective on IFC's work, the IFC response noted differences of opinion with regard to a number of CAO's key findings.[12]

11. In April 2013, the FI Audit and IFC's response were discussed at a meeting of the IFC Board's Committee on Development Effectiveness (CODE). At this meeting IFC agreed to develop an Action Plan to address the findings of the FI Audit.

12. In September 2013, CODE met to discuss IFC's Action Plan in response to the CAO's FI Audit (henceforth the Action Plan). Under the Action Plan,[13] IFC committed to actions under three headings:

    a. *Formalize a Continual Improvement Framework for managing the E&S performance of the FI business.* Actions under this heading focused on developing internal systems and providing additional resources for E&S review and supervision of FI projects, including increased validation of the effectiveness of client ESMSs at the sub-client level.

    b. *Establish a formal, ongoing process of outreach, consultation, and dialogue with key stakeholders on IFC's FI business.* Actions under this heading focused on dialogue with civil society organizations (CSOs) as well as coordination among DFIs to refine and harmonize E&S frameworks.

    c. *Strengthen IFC's Advisory Services (AS) to support regulatory-, market-, and client-level capacity building to help raise the standard of E&S risk management in the Financial Sector in emerging markets.* Actions under this heading focused on scaling up IFC's AS program targeting both FIs and national banking regulators.

13. It is CAO's practice to issue a compliance monitoring report within one year of the date of publication of a Compliance Audit or Investigation. In this case, however, CAO informed IFC, CODE, and other stakeholders that it would issue its compliance monitoring report within one year of the date IFC presented its Action Plan in response to the FI Audit to CODE (in other words, by September 2014).

[12] In particular, IFC noted disagreement with findings 4.2, 4.3, 4.7, 4.8, 4.9, and 4.11 (above).
[13] IFC's FI Action Plan. For further details see www.cao-ombudsman.org/newsroom/archive/documents/IFCpresentationforCODE-ESRMforFIs-final.pdf

Findings from the Ficohsa Investigation

14. As noted above, this report also references IFC's response to CAO's August 2014 Ficohsa Investigation.

15. The Ficohsa Investigation, relating to an IFC equity investment in Honduras' largest bank, represents the first time CAO has conducted a project-level Compliance Investigation of an IFC FI investment. Building on the findings of the FI Audit, the Ficohsa Investigation (released in August 2014) has deepened CAO's dialogue with IFC about E&S issues in relation to FI investments.

16. The Ficohsa Investigation found that IFC did not conduct a sufficient pre-investment review of the E&S risk in its client's loan portfolio, or its client's capacity to implement IFC's E&S requirements.[14] The Ficohsa investigation also identified weaknesses in terms of IFC's E&S supervision, specifically that IFC monitoring of the investment was insufficiently robust to determine whether its client was meeting IFC E&S requirements.[15] Further, CAO found that IFC did not adequately supervise the requirements of Performance Standard (PS) 1 vis-à-vis Ficohsa; in particular the requirement to establish a grievance mechanism that is "readily accessible … to affected communities" and about which affected people are informed. Absent disclosure of information related to the end-use of funds from its FI investments, CAO noted that systems designed to ensure that IFC and its clients are accountable to project-affected people for delivery on their E&S commitments were effectively diluted.[16]

17. CAO noted that the findings of the Ficohsa Investigation raised issues of systemic concern regarding IFC's approach to the identification and management of E&S risk in its FI investments. In particular the Investigation raised concerns that IFC has through its banking investments an unanalyzed exposure to projects with potential significant adverse environmental and social impacts.

18. IFC's response to the Ficohsa Investigation acknowledged shortcomings in its handling of E&S risks attached to that investment.[17] Specifically, IFC recognized that there were gaps in its appraisal of the investment and a lack of due consideration of the potential E&S risks in the Bank's portfolio.[18] As noted above, IFC's response identifies the FI Audit Action Plan as critical to addressing these findings.[19] CAO's analysis of IFC's actions in response to the FI Audit, therefore, also references CAO's findings from the Ficohsa Investigation, where relevant.

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[14] Ficohsa Investigation, p.25f.
[15] Ficohsa Investigation, p.35.
[16] Ficohsa Investigation, p.39.
[17] IFC, Official Response to CAO's Investigation of IFC's Investments in Banco Ficohsa, p.1.
[18] *Ibid.,* p.2.
[19] *Ibid.,* p.1.

Analysis of IFC Action

19. The most recent statements of IFC's response to the FI Audit are contained in a table presenting the status of Action Plan items as prepared by IFC (the Action Plan Status Table – see Annex A).

20. This Action Plan Status Table, together with ongoing discussions between CAO and IFC on IFC's response to the FI Audit, provide the basis for the analysis presented in this monitoring report.

21. **Key actions as presented by IFC** are as follows:

a. ***Continual improvement – changes to E&S Review Procedures***

- *Summary of IFC Actions:* IFC outlines changes in its Environmental and Social Review Procedures (ESRPs) for FI investments expected to go into effect later in 2014. These changes build on revisions to the ESRPs that were published in July 2014. [20]
- Relevantly in relation to **appraisal** of FI investments, IFC highlights: (i) measures to assess risks that emerge from FI client exposure to sub-clients with high E&S risk; (ii) guidance on assessing FI client capacity and commitment; (iii) provisions that give a stronger set of remedy options and disclosure requirements for PE investments; (iv) guidance on E&S criteria to be used by at appraisal; and (v) guidance on disclosure to Senior Management and the Board in relation to E&S issues.
- In relation to the **supervision** of FI investments, IFC highlights proposed changes in the ESRP, including: (i) expanded field supervision requirements for clients required to apply the Performance Standards; and (ii) revised protocols for validating the implementation of banking clients' ESMS. These measures are described as formalizing and developing IFC's existing practice of validating client ESMSs through reviews of sub-client level information and site visits.
- In relation to **repeat investments** in FIs, IFC highlights proposed changes in the ESRP including: (i) exclusion of existing FI clients with an Environmental and Social Risk Rating of 4 (ESRR 4 - unsatisfactory) from additional financing; and (ii) requirement that FI clients rated ESRR 3 (partially unsatisfactory) be eligible for additional financing only in cases where all gaps in E&S performance are addressed before disbursement.
- A more detailed description of the changes to the ESRPs for FI investments is set out in Annex B.
- *Discussion*: IFC's ESRPs for its FI business lines were updated in July 2014. Before then, the ESRPs had not been significantly updated since 2009. Updates

[20] See: ESRP (Approved Revision, July 2014)
http://www.ifc.org/wps/wcm/connect/190d25804886582fb47ef66a6515bb18/ESRP+Manual.pdf?MOD=AJPERES

that reflect the 2012 changes to the Sustainability Framework, CAO's work, and IFC Financial Institutions Group (FIG) learning around sustainability issues over the past five years are thus welcomed. From its discussions with IFC, CAO understands further revisions to the ESRPs are under consideration. It is noted that the text of these further revisions has not been provided to CAO, thus, the discussion here is thus based on the published (July 2014) revisions.

- CAO finds that the changes in the ESRPs engage with findings from the CAO FI Audit, as well as those of the subsequent Ficohsa Investigation, in important respects. They build on CAO's observation (Finding 4.10) that the quality and intensity of IFC's E&S processes with regard to FIs have improved in recent years. The measures also respond to CAO's finding (4.8) that IFC lacks a structured approach to assessing client capacity and commitment in relation to E&S issues.
- In particular, CAO welcomes more-detailed guidance to staff on the requirements for pre-investment E&S review as well as an increased focus on E&S issues at key decision points. In this respect, changes to the ESRPs engage with CAO's finding of the Ficohsa Investigation that pre-investment review of the E&S risk of FI clients' loan portfolios was both insufficiently robust and under resourced, particularly when compared with the thoroughness of IFC's pre-investment credit risk review.[21] Further, revisions designed to support IFC in verifying the effective operation of a client's ESMS represent an engagement with FI Audit Finding 4.6, namely that IFC's focus was on establishing an ESMS as a legally required product—rather than as part of a more fundamental change management process supporting desired E&S outcomes.
- CAO also notes changes to the ESRPs with respect to the circumstances in which FIs must apply the Performance Standards to sub-clients. Specifically, CAO notes that revised ESRP 7 requires the full application of the Performance Standards only in connection with project finance (as opposed to corporate finance) and when the project has defined assets amounting to at least $10 million of the total capital cost and tenor of not less than 36 months. In the case of corporate finance, full compliance with the Performance Standards is not required; rather, the establishment of systems and practices consistent with PS1 and PS2 is required for loans over $5 million with tenors of more than 36 months. Finally, in cases where the FI has "limited leverage," the FI is only required to screen transactions against key objectives of the Performance Standards before making a "go" or "no go" decision on an investment. This represents a narrowing of the application of the Performance Standards in relation to sub-projects compared with the 2009 ESRP. In this context, CAO notes that the 2012 Sustainability Policy requires the application of the Performance Standards to "higher risk business activities" of FIs, without reference to tenor or loan type or loan size restrictions.

[21] Ficohsa Investigation, p.39.

- More detailed evaluation of the adequacy of the proposed changes to the ESRP will be required once text of the most recent proposed amendments is available.

b. Continual improvement – reviewing and changing portfolio management tools

- _Summary of IFC Actions_: IFC indicates that changes are being proposed to FI client E&S reporting formats as well as the forms used by IFC staff for documenting and tracking analysis of client E&S performance.
- _Discussion_: IFC's attention to these issues is welcomed by CAO as potentially responsive to findings of the FI Audit (Finding 4.6) and the Ficohsa Investigation that client E&S reporting can become mechanistic and may not be fit for purpose in terms of the amount of detail provided.[22] As in relation to the proposed amendments to the ESRPs, CAO notes that details of the proposed changes were not available to CAO at the time of writing. Comment on the adequacy of the proposed measures is thus not possible at this point.

c. Continual improvement – comprehensive review of IFC's existing FI portfolio

- _Summary of IFC Actions_: IFC indicates it has conducted a comprehensive review of its existing FI portfolio from an E&S perspective. As a result, IFC reports that it: (i) is following up with clients with ongoing E&S non-performance issues; (ii) has established a list of clients with questionable commitment to its E&S standards; and (iii) has exited one FI investment due to unresolved E&S risk. As part of this process, IFC reports that it also has commenced a review of sub-client-level exposures of select higher-risk FI clients. The objective of this process is reported in terms of: (i) deepening IFC's understanding of its clients' sub-project E&S risk exposure, and (ii) building a basis to strengthen the E&S risk management systems of its higher-risk FI clients.
- _Discussion_: More detailed engagement with sub-client-level E&S risk is required to address the findings of the CAO FI Audit (Findings 4.2 & 4.6) and the subsequent Ficohsa Investigation. While CAO did not have details of the measures described at the time of writing, they should be welcomed in principle as indications of willingness by IFC to engage in greater analysis of sub-project-level E&S risk.

d. Continual improvement – enhanced disclosure

- _Summary of IFC Actions:_ IFC notes that there were substantive changes made in the Access to Information Policy 2012 that will lead to private equity clients disclosing Category A investments where possible within the constraints of host-country regulation.[23] Further, in its Action Plan, IFC has committed to expand the disclosure of private equity subprojects, beyond those classified as Category A,

[22] Ficohsa Investigation, p.29.
[23] IFC defines Category A investments as those that have potential significant adverse environmental or social impacts that are diverse, irreversible or unprecedented.

to all investments. IFC has revised its legal E&S covenants for private equity funds, and anticipates disclosure along these lines starting in April 2015.

- In its discussions with CAO, IFC noted that it is analyzing the legal context for approaches that could support greater disclosure by regulated entities while recognizing client countries' and national regulatory restrictions.
- _Discussion:_ As noted in the FI Audit and the Ficohsa Investigation, absent disclosure of information related to sub-projects, the use of funds by IFC banking clients may be divorced from systems designed to ensure that IFC, and its clients, are accountable to project-affected people for delivery on their E&S commitments.[24] In this context, CAO welcomes greater disclosure of subprojects by IFC-funded private equity investments, as well as the commitment to a broader discussion about disclosure.

e. Continual improvement – FI Grievance Mechanism

- _Summary of IFC Actions:_ IFC notes that clients are required to establish a communication mechanism to receive and register external communication and complaints from the public. The FI client is required to screen and assess issues raised, to track, and to document responses, and to adjust its ESMS as appropriate. IFC proposed in its Action Plan to have FI-1 and FI-2 clients communicate the presence of this mechanism and ways in which the public can access it.[25]
- IFC has revised its ESRPs to include an assessment of an FI's internal and external grievance mechanism at appraisal. IFC is also revising its client E&S reporting formats so that FI clients are guided to report on the status of their grievance mechanisms.
- _Discussion:_ CAO welcomes IFC's engagement with the requirement that FI clients implement a grievance mechanism to deal with complaints from the public about the E&S impacts of their operations. CAO notes, however, that IFC's approach does not directly address the link between FI client subproject disclosure and effective access to a grievance mechanism, as required by PS1.[26]

f. Continual improvement – Performance Tracking System Enhancements

- _Summary of IFC Actions_: IFC describes a program to improve its E&S tracking systems. IFC is in the process of introducing changes to its Environmental and Social Review Document to enable better internal data management. Further, IFC has developed an E&S Portfolio Performance Sheet that summarizes the key gaps in each region, and is shared and discussed during portfolio meetings with FM clients on a quarterly basis.

[24] FI Audit, p.26. Ficohsa Investigation, p.36 & p.39.
[25] FI-1 and FI-2 clients are FI clients that have portfolios with moderate to high E&S risk.
[26] See discussion in Ficohsa Investigation, p.36.

- *Discussion*: At the time of writing, CAO did not have information about this initiative that was sufficient to support informed discussion.

g. IFC Advisory Services – E&S Management Systems Tools for FI Clients

- *Summary of IFC Action*: IFC describes an Advisory Services (AS) program related to the ESMS diagnostics tool that has been piloted with eight FI clients. The ESMS diagnostic tool is designed to support systematic and in-depth assessment of an FI client's systems and capacity to manage E&S risk. IFC also notes that a proposal has been developed to provide ESMS development support to "a few" clients in FY15 and FY16.
- *Discussion*: Though limited details are provided, the diagnostic tool described engages with FI Audit Finding 4.8 about the need for a more structured approach to assessing client commitment and capacity for E&S issues. The AS program described also responds to Finding 4.9, which emphasizes the need to develop tools and approaches reflecting the significant differences in client capacity as well as the institutional settings in which they operate. CAO will continue to engage with IFC in order to better understand the scope and effectiveness of these measures.

h. IFC Advisory Services – Support to National Banking Regulators on E&S Risk

- *Summary of IFC Action*: IFC describes a program to support banking regulators in establishing policies for E&S risk management and sustainable banking. Under this program, IFC notes that five countries (Bangladesh, Brazil, China, Colombia, and Nigeria - have launched E&S risk management guidelines for their banking sector, while six other countries (Indonesia, Mongolia, Nepal, Peru, Philippines, and Vietnam) are in the process of launching similar guidelines.
- *Discussion*: Broader engagement with the regulatory framework for sustainable banking in client countries may contribute to the long-term development of industry standards (FI Audit Finding 4.5), as well as driving cultural change in national banks (FI Audit Finding 4.6).

i. IFC Advisory Services – Training of Trainers Pilot

- *Summary of IFC Action*: IFC reports that it has launched a Training of Trainers (TOT) program in five countries following an initial pilot. The TOT aims to build capacity for local trainers and consultants in E&S risk management so that the program's trainees can offer their services to local FIs. IFC reports plans to roll out this program out further in FY15-17.
- *Discussion*: Encouraging private sector consultancies to provide E&S risk management service to local FIs may contribute to building local capacity (FI Audit Finding 4.8) and to creating a shared vision in the sector for E&S risk management (FI Audit Finding 4.5). However, CAO notes that for IFC to fully engage with Finding 4.5 would require IFC to encourage the development of third-party assurers to provide an independent check on an FI client's ESMS.

j. Internal Capacity and Prioritization – Messaging / Training / Tip Sheet

- *Summary of IFC Action*: IFC describes the importance of creating strong understanding and ownership of E&S issues, both among IFC FIG staff and their clients. In this context, IFC highlights messages delivered by FIG senior management stressing the importance of E&S for IFC's FI business. IFC also describes a training program, "Proactive Engagement with Clients on E&S Issues," which was delivered to 60 FIG investment staff in 2014, as well as plans to roll out this training to regional staff in FY15. IFC further points to the development of a Tip Sheet on E&S issues for FIG Investment Officers (IOs) that was developed in FY14.
- *Discussion*: In CAO's analysis, messaging from FIG management has appropriately emphasized that strong management of E&S risk is vital the success of IFC's FI business lines. In particular, CAO notes that the IFC Tip Sheet for FIG IOs emphasizes client capacity and commitment (FI Audit Finding 4.8) as essential to ensuring strong E&S performance. CAO also notes that the Tip Sheet highlights the importance of the FI client's developing and operating an ESMS commensurate to the risk of its portfolio (FI Audit Finding 4.6).

k. Internal Capacity and Prioritization – Increased Budget for IFC E&S Department

- *Summary of IFC Action*: IFC notes significant planned increases in the budget for the IFC E&S Department (known as CES) in FY15-17. With this increased budget, IFC proposes to strengthen the team of E&S specialists and consultants working on FI investments, as well as to expand IFC's E&S AS program for FI clients. With additional budget, IFC also indicates it is committed to increasing supervision visits to clients.
- *Discussion*: Adequate CES resources are necessary to support an effective response to the FI Audit, and are welcomed. In particular, the FI Audit (Finding 4.10) noted that increased staff resources devoted to FI E&S risk management had a material impact on the quality of support provided to clients' after 2008. At the same time, CAO notes FI Audit Finding 4.11, regarding the allocation of IFC's E&S resources not being cost-based, making it therefore impossible to assess the efficiency and effectiveness of IFC's E&S activities.[27]

l. Rationalization of Exclusion List

- *Summary of IFC Action*: In its discussions with CAO, IFC has noted a number of updates to the IFC Financial Intermediary Exclusion List, which are currently under consideration.[28] These updates seek to reduce confusion between IFC's Corporate Exclusion List and its FI Exclusion List, provide greater guidance for FI's on implementation and expand IFC's requirements for FI clients.

[27] CAO notes that IFC disagrees with Finding 4.11, saying that the current risk-based allocation of resources is more appropriate, and as such has not proposed any actions in response to this finding.

[28] The IFC Exclusion List defines the types of projects that IFC does not finance.

- *Discussion*: These actions engage with CAO's findings that the application of the Exclusion List can be confusing (FI Audit Finding 4.7) and that for many FI clients, the gap between the requirements of the Exclusion List and those of the IFC Performance Standards represent a "chasm" that is difficult to cross.[29] In this context, CAO notes and welcomes updates that seek to bridge the "chasm" between the Exclusion List and the Performance Standards. CAO also notes that IFC has agreed to consult with the Board before making any formal decision on the revision of the Exclusion List.

m. Ongoing Stakeholder Engagement

- *Summary of IFC Actions:* IFC reports regular engagement with CSOs on the development of its approach to E&S risk management. Regarding these engagements, IFC notes a shift in the conversation from the initial flagging of concerns to one of exploring suggestions and solutions. One of particular importance emerging from discussions with CSOs that IFC highlights is the issue of disclosure of FI subprojects.
- *Discussion*: CAO acknowledges the importance of IFC's engagement with stakeholders on E&S aspects of its FI business. Broad consultation is necessary to ensure the effectiveness of IFC's response across a range of findings from the FI Audit. In particular, CAO welcomes the focus on subproject-level disclosure in these discussions.

n. Coordination with Other Development Finance Institutions

- *Summary of IFC Actions*: IFC reports that it has developed a concept note for Analysis and Coordination of DFI E&S requirements for FI clients. IFC also reports that an analysis of IFC's standards versus those of other DFIs is expected to be completed by April 2015.
- *Discussion*: Though limited details are provided, greater harmonization of E&S standards responds to FI Audit Finding 4.4 regarding the need to reduce the burden of differing E&S standards among various DFIs.

[29] FI Audit, p.31.

Summary of Progress and Gaps

22. As outlined above, CAO has considered the actions set out in the Action Plan Status Table in the context of the findings of its FI Audit and subsequent Ficohsa Investigation.

23. Actions taken by IFC following the preparation of the Action Plan go substantially beyond the initial IFC response to the FI Audit, and engage with a number of its key findings. In particular, CAO welcomes IFC's emphasis on continuous improvement related to the implementation of IFC's Sustainability Policy. In light of the findings of the FI Audit, CAO also recognizes IFC's development of an ESMS diagnostic tool with a view to ensuring that staff have a more systematic and in-depth understanding of FI clients' systems, as well as their capacity and commitment to manage E&S risks.

24. The FI Audit noted a lack of capacity in the market to support E&S Management Systems implementation.[30] CAO thus welcomes actions taken by IFC to support the development of market capacity in the E&S consultancy sector as well as its commitment to pilot enhanced support for ESMS implementation for select FI clients. Such actions may contribute to addressing the identified market failure and support improved E&S risk management among FIs in the countries where IFC is investing.

25. CAO also welcomes IFC's increasing engagement with E&S risk at the sub-client level. The development of more-structured approaches to the validation of FI client ESMSs through sub-client-level reviews and site visits is positive. Similarly, CAO acknowledges IFC's commitment to increased supervision of its FI portfolio, which is explained on the basis of a need to deepen its understanding of sub-project level risks.

26. CAO notes the July 2014 revisions to the IFC's ESRPs. These revisions provide staff with more-detailed guidance on the requirements for pre-investment E&S review, as well as an increased focus on E&S issues at key decision points. While welcoming these measures, CAO also notes changes to the circumstances in which IFC requires that FIs apply the Performance Standards to sub-clients. In CAO's analysis, these revisions to the ESRPs may narrow the application of the Sustainability Policy as approved by the IFC Board, in that they restrict the application of the Performance Standards to FI sub-clients that meet certain loan-type, size, and tenor requirements (see para. 21(a) above).

27. Further, important findings from the FI Audit remain unaddressed. A crucial message from the FI Audit was that IFC does not have a "*systematic methodology for determining whether the implementation of [an ESMS] actually achieves the objective of doing no harm or the objective of improving E&S outcomes on the ground*" (p.41). In the context of this finding, it is unclear whether IFC is developing a framework that adequately supports analysis of

[30] FI Audit, p.34.

progress toward these higher-level E&S commitments. This will be particularly important in contexts where addressing a mixture of cultural, capacity, and commitment issues is necessary to achieve the desired positive impact on E&S performance at the client and sub-client level.

28. More specifically, IFC's response may not sufficiently address identified weaknesses in its approach to the review and supervision of sub-client level risk in FI clients. While IFC has proposed a number of measures in response to these concerns (e.g., validating the implementation of an FI's ESMS through a sample of sub-clients and/or review of their E&S due diligence), it is unclear to CAO whether these are sufficiently comprehensive or robust, particularly given challenges of effective implementation in relation to high risk subprojects. Detailed analysis of the adequacy of these measures is thus not possible at this point.

29. Finally, while CAO has welcomed greater disclosure of subprojects by IFC's Private Equity funds, the end-use of the majority of IFC FI investments is not subject to disclosure. As identified in the FI Audit and the Ficohsa Investigation, ensuring that IFC FI clients, and ultimately the IFC itself, maintain appropriate downward accountability for the E&S performance of FI investments will remain an important focus moving forward. Ensuring that FI clients establish grievance mechanisms that meet the access requirements of PS1 will also be important in this context.

Conclusion

30. In summary, CAO has considered the actions IFC has taken to date in response to its FI Audit. These engage with many of the key findings from the FI Audit and have the potential to improve the quality of E&S outcomes in relation to IFC FI investments over time. In its monitoring role, CAO will continue to follow the specifics of these changes and the effectiveness of their implementation.

31. At the same time, CAO would like to highlight that the measurement of outcomes that correspond to IFC's higher-level E&S commitments relevant to its FI business appears to be beyond the scope of the changes that IFC has proposed. CAO has also noted the importance of monitoring the robustness of the measures proposed by IFC to identify and mitigate E&S risk, particularly in relation to FIs that are engaged in high risk sub-projects. Finally CAO has noted the importance of transparency and accountability around FI investments in meeting IFC's E&S goals. CAO looks forward to engaging with IFC on these subjects.

32. CAO plans to release a follow-up monitoring report in relation to its FI Audit no later than September 2015.

Annex A: IFC Action Plan Status Table (Provided to CAO by IFC, August 2014)

CAO Finding #	*Action Plan Initiative and Key Steps Proposed*	*Department with Primary Responsibility*	*Specific Actions to Be Taken*	*Timeline*	*Status Update*
	1. Continual Improvement Framework: IFC endeavors to continually strengthen implementation of its policies and procedures. Based on the CAO report and stakeholder engagement, and given the recent changes in the 2012 framework, IFC proposes the following:				
4.2 **4.3** **4.8**	1.1. **Capacity and Commitment Assessments:** Client capacity and commitment is an important factor to the overall management of the E&S risks and IFC proposes to accord greater attention to alignment of values with clients on E&S during appraisal.	CES	1) SL to develop guidance for FI specialists to assess capacity and commitment, and review by FI team 2) CES management approval of assessment criteria 3) ESRP revision to include capacity and commitment as key areas of appraisal and IRM input by CES 4) Coaching session for FI specialists and distribution of best-practice examples	Q2 FY14 Q2 FY14 Q1 FY15 Q3 FY14	1) Completed 2) Completed 3) The updated ESRP is expected to go into effect in September 2014 4) Completed
4.2 **4.3**	1.2. **Increased Supervision:** There is scope for increasing coverage of FI-level site visits, given the success of the enhanced supervision that has been in place for FI-1 projects. IFC proposes to cover all FI-2 clients with PS requirements, which will entail about 30 additional clients to be visited annually.	CES	1) Increase supervision by 10-20 FI clients in FY14 and FY15 each, and prepare and implement SVM Plan	FY14 and FY15	1) In progress

CAO Finding #	Action Plan Initiative and Key Steps Proposed	Department with Primary Responsibility	Specific Actions to Be Taken	Timeline	Status Update
4.5 **4.6**	1.3. **Enhanced Disclosure:** There has been a call for enhanced disclosure for IFC's FI portfolio and there were substantive changes made in the 2012 AIP within the constraints of host-country regulations in the financial sector. Even as the results of these policy changes are expected in the coming year, IFC is proposing to adopt the following steps:				
4.5	1.3.1. To expand the disclosure of investee companies by PE funds to cover all investments, not just Category A investments. This initially will be done on a best-efforts basis to test operational feasibility and client implications, before formalizing it.	CES/CLED/FIG	1) Revise E&S covenants for PE funds to allow for disclosure of all subprojects 2) Roll out revised legal provisions 3) Start annual disclosure of all subprojects for projects to which new covenants apply	Q2 FY14 Q2 FY14 Q3 FY15	1) Completed 2) Completed 3) From April 2015

CAO Finding #	*Action Plan Initiative and Key Steps Proposed*	*Department with Primary Responsibility*	*Specific Actions to Be Taken*	*Timeline*	*Status Update*
4.6	1.3.2. With the 2012 Sustainability framework update, IFC requires its FI clients to establish a communication mechanism to receive and register external communications and complaints from the public at large. The FI is required to screen and assess any issues raised, track, and document responses, and adjust the ESMS as appropriate. IFC proposes to have FI-1 and FI-2 clients communicate the presence of this mechanism and the way the public can access it in their annual reports, as their commitment to good corporate citizenship and openness to stakeholder engagement.	CES	1) Revise guidance on auditable criteria for ESMS review used by FI specialists and ESMS development guidance materials for clients 2) Revise Annual Environmental Performance Report (AEPR) format to include reporting by FIs on development of communication mechanism, complaints received, and responses provided	Q3 FY14 Q2 FY15	1) Completed 2) In progress (*first draft is ready for internal review and consultation*)
4.5	1.3.3 IFC will also continue to explore and promote other market best practices that are feasible in the financial sector.	CES			Ongoing

CAO Finding #	*Action Plan Initiative and Key Steps Proposed*	*Department with Primary Responsibility*	*Specific Actions to Be Taken*	*Timeline*	*Status Update*
4.6	1.4. **Subproject Reviews:** As presented earlier, IFC has a practice of validating FIs' ESMS through reviews of subproject-level information and site visits, having covered over 1,200 sub-clients for higher- and medium-risk FIs. IFC proposes to document this practice as a formalized and systematized protocol for sub-client reviews as a basis of a FI's ESMS validation. IFC will share this protocol, as has been requested by many stakeholders.	CES	1) SL to prepare proposal for subproject sample selection criteria, and review by FI team 2) CES management approval of sample selection criteria 3) ESRP revision to include subproject review approach 4) Development of Guidance Note on subproject review (that can be shared with the public)	Q2 FY14 Q2 FY14 Q2 FY15 Q1 FY15	1) Completed 2) Completed 3) Draft ESRP completed and under review 4) In progress

CAO Finding #	*Action Plan Initiative and Key Steps Proposed*	*Department with Primary Responsibility*	*Specific Actions to Be Taken*	*Timeline*	*Status Update*
4.1 **4.2**	1.5. **Performance Tracking System Enhancements:** The core of strengthening implementation requires ensuring that internal data and performance tracking systems remain efficient and appropriate to the growth of the business. IFC will seek to review and strengthen internal data tracking and MIS, and strengthen internal coordination mechanisms to ensure active portfolio management and client engagement for effective E&S risk management.	CES/FIG	1) Prepare list of changes required to portfolio tracking sheets, ESRDII and iDesk to enable better data management, and request CIB to implement changes	Q3 FY14	1) Completed
			2) Develop E&S Portfolio Performance Sheet summarizing key gaps in each region, and share and discuss these on a quarterly basis during Portfolio meetings with FM	Q3 FY14	2) Completed
			3) Set up ongoing communication between senior management and staff on E&S issues	Q4 FY14	3) Ongoing task *(first communication went out on May 1)*
			4) Prepare a Tip Sheet for IOs on E&S risk management at IFC	Q4 FY14	*4)* Completed *(Tip Sheet was distributed during FIG Knowledge Forum and is available on SPARK)*
			5) Develop a training on FI's E&S risk management for FIG staff and deliver in a form of brown-bag lunch/webinar/face-to-face	Q4 FY14	5) Ongoing task *(first training was delivered during FIG Knowledge Week on June 6)*
			6) Deliver four more training on FIs' E&S risk management in the regions	Q4 FY15	6) Ongoing task *(the training will cover the regional hubs/main offices in Istanbul, Mexico, Mumbai, Johannesburg, and Hong Kong)*

CAO Finding #	Action Plan Initiative and Key Steps Proposed	Department with Primary Responsibility	Specific Actions to Be Taken	Timeline	Status Update
	2. Stakeholder Outreach and Dialogue: There is recognition for a need for more information sharing and engagement with IFC's stakeholders on the nature of the FI business and how we manage different aspects of the same. In this regard IFC is proposing to take the following steps:				
4.1 **4.3**	2.1. IFC will engage, at least annually, in a dialogue with CSOs covering various aspects of IFC's FI business. IFC initiated this process in December 2012 with a CSO meeting in Brussels. Since then, IFC has held similar meetings in Washington, D.C., and most recently in London. IFC is also exploring a meeting in Asia later this year, as requested by some of the CSOs. Interest at these meetings has been focused on: o The development impact and objectives of IFC's FI program o Management of risks, including E&S risks o Transparency and governance o Opportunities and constraints o Other issues based on stakeholder expressions of interest	FIG	1) To hold a meeting with CSOs in Washington, D.C., during Spring Meetings for FY14 2) To hold a meeting with CSOs in Asia or Europe	Q4 FY14 Q1-2 FY15	1) Completed *(meeting took place on April 9)* 2) Being planned for Asia for fall 2014

CAO Finding #	Action Plan Initiative and Key Steps Proposed	Department with Primary Responsibility	Specific Actions to Be Taken	Timeline	Status Update
4.4 **4.5**	2.2. IFC will continue to work in partnership/leadership with DFIs and market players to refine and harmonize E&S frameworks and evolve and to help disseminate best practices in the market.	CES	1) Draft a Concept Note for Analysis and Coordination of DFIs E&S Requirements for FI Clients 2) Consultation with DFIs to seek their participation and cooperation on the analysis 3) Desktop IFC & DFI standards/procedures benchmarking and interviews 4) Draft report for internal and DFI review and consultation 5) Final report	Q3 FY14 Q2 FY15 Q2 FY15 Q2 FY15 Q3 FY15	1) Completed 2) In progress 3) In progress 4) In progress 5) Expected to be completed by April 2015
	3. ESRM for FIs – Advisory Services: In addition to direct guidance and support provided to higher- and medium- E&S risk investment clients by the IFC E&S specialists, IFC believes that strengthening market drivers and capacity is essential to improving E&S risk management in emerging markets. With this in mind, IFC proposes to scale up its Advisory Services program with the following elements:				

CAO Finding #	Action Plan Initiative and Key Steps Proposed	Department with Primary Responsibility	Specific Actions to Be Taken	Timeline	Status Update
4.5 **4.6**	3.1. Supporting the development of market and regulatory drivers (already under way). Key highlights include: • IFC has been actively working with a number of key banking regulators on E&S guideline implementation. Thes have included Bangladesh, Brazil, China, and Nigeria. Based on the progress so far, IFC is working with a number of other banking regulators on E&S guidelines development. Thieyinclude Indonesia, Mongolia, Philippines, Vietnam, and Nepal. • IFC has established the Sustainable Banking Network (SBN) for regulators to make this a global initiative and to share knowledge and resources across markets.	A2F	1) Develop implementation guidelines, tools and M&E mechanism for Bangladesh, China, and Nigeria 2) Develop E&S guidelines for Indonesia, Mongolia, Philippines, Vietnam, and Nepal 3) Organize second International Sustainable Banking Forum together with Central Bank of Nigeria 4) Expand SBN	Q3 FY15 FY14 – FY15 Q3 FY14 FY13 going forward	1) In progress (*completed in China and Nigeria. Ongoing in Bangladesh*) 2) In progress *(drafts have been developed for Vietnam and Mongolia)* 3) Completed *(event took place in Nigeria on March 2-4)* 4) Ongoing task *(Central Banks of Nepal and Morocco joined the network in FY14. There is a strong interest from Lebanon, Kenya, and Mexico)*
4.8	3.2. To support market capacity development, IFC proposes to build capacity in the markets through third-party providers to support the financial sector with improvement of E&S practices (already initiated). The steps include: • Adapt and roll out "Train the Trainer" modules for pilot testing in selected markets: Bangladesh, China, Mongolia, and Vietnam • Develop partnerships and plan for rolling out in priority markets after pilot	A2F	1) Select a consulting firm to develop and deliver the TOT in select countries 2) Customize and translate training materials 3) Training partners' assessment and advice 4) TOT delivery and trainer development 5) Deliver of 4-5 trainings for multiple FIs in each market by consultant firms and trainers	Q4 FY14 Q4 FY14 Q1 FY15 Q2 FY15 Q4 FY16	1) Completed 2) Completed 3) In progress 4) In progress 5) Completion by December 30, 2015

CAO Finding #	Action Plan Initiative and Key Steps Proposed	Department with Primary Responsibility	Specific Actions to Be Taken	Timeline	Status Update
4.2 **4.8**	3.3. IFC also plans to engage directly with leading FIs in the various markets to help build their capacity (new offering). It is expected that these FIs will be lighthouse institutions and will help shift market behavior. The steps include: • Developing a strong articulation of the business case for E&S risk management for FIs. This is proposed for FY14 • Developing FI ESMS diagnostic services that will enable FIs to identify E&S risk areas and enable benchmarking. This will be launched as a pilot over FY14 and will be rolled out thereafter • Pilot ESMS implementation support planned over CY14, and rollout starting in CY15 • As the demand for this offering is as yet untested and this initiative has strong value for reputation risk management for IFC and the FIs, IFC will explore pricing options during the pilot phase to arrive at a suitable approach to ensure success	A2F	1) ESMS diagnostic services pilot 2) ESMS diagnostic service rollout 3) Pilot ESMS implementation support	Q4 FY14 FY14 going forward FY15-onward	1) Completed 2) Ongoing task (*over FY14 IFC worked with 12 banks in 8 markets - Bangladesh, Turkey, Honduras, Haiti, Mexico, Georgia, Vietnam, and China*) 3) Ongoing task
4.2	3.4. In addition to the above, IFC proposes to integrate E&S risk management aspects into other relevant FI Advisory programs such as SME banking, Banking on Women, Agri-business financing and Risk Management.	A2F		FY15-onward	Ongoing

Annex B –Key Changes to ESRP 7, 8 and 9 (July 2014)

The Environmental and Social Review Procedures are management-approved guidance for E&S staff in assessing and supervising investment activities. In June and July 2014, IFC updated the ESRPs for appraising and supervising Financial Intermediaries (ESRP 7, 8 and 9).[31]

IFC's previous version of these procedures was dated August 2009. The table below sets out CAO's assessment of key changes to the ESRPs.[32]

ESRP 7 – Financial Intermediary: Early Review and Appraisal

	ESRP Version August 2009	*ESRP Version July 2014*
Project Concept Review Meeting (PCM)	E&S specialist to: • participate in PCM, • respond to E&S inquires and gather additional information about the project and potential E&S risks and opportunities	E&S specialist to: • participate in PCM, • respond to E&S inquires, • flag key E&S issues associated with the project, product and type of financing, • advise on the need for field appraisal and; • in the case of an existing client, outline key performance gaps
Instances that may necessitate a Site Appraisal Mission	• project expected to include the PSs • where it is considered necessary to review FIs' ESMS or existing subprojects	• for projects expected to be FI-1 (high-risk) • projects expected to include the PSs • where it is considered necessary to review FIs ESMS or existing subprojects • new product offering

[31] IFC's Environmental and Social Review Procedures are available at www.ifc.org/wps/wcm/connect/190d25804886582fb47ef66a6515bb18/ESRP+Manual.pdf?MOD=AJPERES (Accessed September 15, 2014)
[32] This table is for illustrative purposes only. It should not be used as an exhaustive list of changes to the ESRPs related to FIs

	ESRP Version August 2009	*ESRP Version July 2014*
Appraisal Assessment	E&S specialist determines the significance of business activities that have potential E&S impact by reviewing: • portfolio and sector information; and • the tenor, transaction sizes, and industrial sectors where the FI is investing	E&S specialist obtains relevant information to analyze the level of E&S risk in the client's portfolio. This includes: • assessment of types of financing, tenor, transaction sizes and industrial sectors to be supported • FI's business plan and strategy • Exposure to Excluded Activities and Restricted Activities • FI's top and high-risk exposures • potential exposure to projects under CAO investigation • projects on the IFC E&S Department (CES) High-Risk List • activities of FI subsidiaries • identify any country/sector-specific E&S risks and E&S reputational risks • assessment of FI's ESMS • relevant country requirements, and; • FI's labor and working conditions
Investment Review Meeting (IRM)	If required, the E&S specialist will participate in the Investment Review Meeting and respond to any queries.	E&S specialist shall: • prepare a summary of key appraisal findings for IRM book • participate in the IRM and respond to queries IRM contribution shall be a summary of: • portfolio assessment • project E&S categorization • key E&S risks and impacts • high-risk exposures • potential for E&S reputational risk • client's E&S risk management practices • client's level of E&S capacity and training • client's labor and working conditions • E&S requirements for the investment • E&S Action Plan and assessment of client's commitment to implement it.

	ESRP Version August 2009	*ESRP Version July 2014*
Categorization	The categorizations are: • Category C - Projects that are expected to have no material adverse E&S impact and Trade Finance projects • Category FI – all other projects	E&S risk categorizations are determined on the basis of the E&S risk profile of the existing and/or proposed portfolio, and take into account the tenor, type, size, sector exposure of the portfolio, and are guided by the financial product and IFC's Sustainability Policy. The categorizations are: • FI-1 – "business activities with potentially significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented." • FI-2 – "business activities that have potentially limited adverse environmental and social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;" or that include a very limited number of FI-1 business activities • FI-3 – "business activities that predominantly have minimal or no adverse environmental or social impacts."
Requirement to apply Performance Standards (PS)	Where the portfolio review indicates that the FI's investments could have potentially significant E&S impact, the FI will ensure that its subprojects meet the relevant elements of IFC's PSs	Where the FI's portfolio to be supported includes project finance and long-term corporate finance, the FI will be required to assess E&S risks against the PSs and require its borrowers/investees to comply with the PSs. Specifically, the FI will apply the PSs as follows: • For finance and loans not less than 36 months and funding-defined assets as part of a project amounting to at least $10 million of the total capital cost, FI to require sub-client to comply with the PSs; • Loans exceeding $5 million on an aggregated basis over 36 months, FI to require that sub-client's ESMS and labor practices to be consistent with PS1 and PS2; and • In cases where the FI has limited leverage, FI to screen transactions against key objectives of the PS in order to make a "go" or "no-go" decision on the investment The ESRPs provide further guidance on E&S categorization and requirements for key products (i.e. short-term finance, commercial banks, private equity funds, etc.)

	ESRP Version August 2009	*ESRP Version July 2014*
Evaluation of FI's ESMS	Evaluation criteria include: • E&S policies and procedures; • current organizational structure and staffing; • skills and competencies in E&S areas; • training and awareness of FI staff to E&S requirements and ESMS; • performance monitoring procedure; • reporting of results to management; and • track record to date in ESMS implementation.	Evaluation criteria include: • E&S policy and senior management approval • current organization structure and staffing • skills, capacity, and competencies of staff in E&S areas • training and awareness of FI staff to E&S requirements and ESMS • performance monitoring procedures and records • reporting of results to management • adequacy and quality of ESMS implementation to date • E&S due diligence procedures and tools • E&S provisions in legal documents • external communication and grievance mechanism • commitment of FI to undertake E&S risk management

ESRP 8 – Financial Intermediary: Disclosure and Commitment

	ESRP Version August 2009	*ESRP Version July 2014*
Conditions of Commitment (COC)	*No requirement for E&S specialist to clear conditions of commitment*	• E&S specialist to provide clearance that E&S COCs have been satisfied • when clearance is sought, information will be obtained and reviewed as required to evidence the same

ESRP 9 – Financial Intermediary: Supervision

	ESRP Version August 2009	*ESRP Version July 2014*
Review of FI's AEPR	Criteria include: • the client's performance against the E&S requirements • the status of the client's implementation of the ES Action Plan (ESAP) and timeline, if relevant; • performance against the performance indicators; • previous AEPR reviews; • key performance or information gaps relating to the client's E&S performance; and • key steps the client may need to take to improve performance.	Criteria include: • the status of the client's implementation of the ESAP and timeline, if relevant; • the status of development of the FI's ESMS; • the quality of the implementation of the client's ESMS, particularly the quality of E&S Due Diligence (ESDD) at appraisal and during portfolio monitoring, and the compliance of subprojects with the applicable requirements; • status of remedial actions identified in previous AEPR reviews and supervision visits; and • key performance or information gaps relating to the client's E&S performance; • key steps the client may need to take to improve performance; • the client's E&S staff capacity and training needs; • the portfolio supported and any changes thereof; • the quality and timeliness of AEPR reporting.
Criteria for Site Supervision Visits (SSV)	Supervision priority given to FI projects with high potential risks or poor E&S risk ratings or issues that are common to a number of projects.	Detailed criteria and significant guidance provided in July 2014 version of the ESRPs for determining projects to visit and preparations for such visits. Selection criteria for SSV: • FI-1 and FI-2 projects with PSs visited annually. Other FI-2 projects visited every three years • mandatory SSV for projects where there is a knowledge gap or E&S risk rating of 3 or 4 • mandatory SSV for projects within the first year of disbursement Guidance for Subproject Site Visits: • E&S specialist to visit 1-3 subprojects of private equity funds • for all other FI investments, E&S specialist to review FI's E&S due diligence of a sample of subprojects.