

INTERNATIONAL FINANCE CORPORATION

**MANAGEMENT REPORT AND MANAGEMENT ACTION PLAN
IN RELATION TO THE**

CAO COMPLIANCE INVESTIGATION REPORT

ON

ABBANK

VIET NAM AND CAMBODIA– EAST ASIA AND THE PACIFIC

(PROJECT No. 29745)

March 12th, 2026

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ABBREVIATIONS AND ACRONYMS

ABBank	An Binh Commercial Joint Stock Bank
CAO	Compliance Advisor Ombudsman
CES	Environmental and Social Policy and Risk Department
CSO	Civil Society Organizations
E&S	Environmental and Social
ESDD	Environmental and Social Due Diligence
ESAP	Environmental and Social Action Plan
ESMS	Environmental and Social Management System
ESRP	Environmental and Social Review Procedure
EVN	Electricity of Viet Nam
EVNI	Electricity of Viet Nam International
FI	Financial Intermediary
LESS	Lead Environmental and Social Specialist
LS2	Lower Sesan 2 Hydropower Plant in Cambodia
IFC	International Finance Corporation
MAP	Management Action Plan
MIGA	Multilateral Investment Guarantee Agency
PS	International Finance Corporation Performance Standards (2012)
PSBC	Postal Saving Bank of China
SME	Small and Medium Sized Enterprise
US\$	United States Dollar
Vietinbank	Viet Nam Joint Stock Commercial Bank for Industry and Trade
VND	Vietnamese Dong

EXECUTIVE SUMMARY

I. In December 2010, the International Finance Corporation (IFC) entered into an equity investment in An Binh Commercial Joint Stock Bank (ABBank) in Viet Nam for approximately US\$40.6 million through a mandatory convertible bond (the Project). The aim of the investment was to increase financial inclusion, create jobs and reduce poverty in Viet Nam. In May 2024, IFC completed a planned divestment from its shareholding in ABBank.

II. Between 2018 and 2024, the Compliance Advisor Ombudsman (CAO) received multiple complaints from communities affected by the Lower Sesan 2 hydropower plant in Cambodia (LS2) represented by civil society organizations (CSOs).¹ The complaints alleged that IFC was financially exposed to LS2 through three of its Financial Intermediary (FI) clients – ABBank, Vietinbank and Postal Saving Bank of China (PSBC). CAO closed cases alleging exposure through PSBC and Vietinbank, confirming that there was insufficient evidence of a financial relationship.²

III. Even though CAO confirmed that there was no financial relationship between IFC and LS2, CAO proceeded to investigate the complaint related to IFC's equity investment in ABBank. Prior to IFC's investment in ABBank in 2010, ABBank had invested in Electricity Viet Nam International (EVNI). EVNI had, also prior to IFC's investment in ABBank, financed early feasibility studies for the development of the LS2 hydropower plant. No proceeds from the IFC equity investment in ABBank were used to finance EVNI or EVNI's investment in LS2. There is no direct or indirect financial link between IFC and EVNI or between IFC and LS2.

IV. CAO identified a mistake in the 2010 legal agreement between IFC and ABBank that allowed it to link IFC to LS2. The broadly drafted agreement was interpreted to require ABBank to apply IFC's Environmental and Social (E&S) Policy retrospectively to its existing portfolio prior to IFC's investment. This erroneous drafting did not reflect the intent of the parties or IFC's E&S Policies.

V. However, neither the 2006 Sustainability Policy nor E&S Review Procedure (ESRP) in effect at the time of project appraisal required the application of IFC's E&S requirements to the portfolio of the FI that existed prior to IFC's investment. Although the IFC 2006 Sustainability Policy applicable at the time was not explicit on this aspect, the 2012 update of the IFC Sustainability Framework approved by the IFC Board specifically clarified this aspect. Paragraph 37, states that when IFC provides equity or financial support for a general purpose, IFC's E&S requirements apply only to the portfolio of the FI client that is originated from the time IFC became a shareholder or investor.

VI. Therefore, CAO's findings are not aligned with the requirements of the 2006 Sustainability Policy or the subsequent 2012 update of the IFC Sustainability Framework. The retroactive application of IFC's E&S requirements to an FI client's existing portfolio prior to IFC's investment

¹ The design of LS2 started in 2007. In 2012 the Cambodian Royal Group and the China's Hydrolancang International Energy signed an agreement to develop the LS2 project. Construction of the dam started in 2013, and the plant went into operation in 2018.

² See CAO cases on PSBC 2 and Vietinbank, <https://www.cao-ombudsman.org/cases/cambodia-psbc-02>,

was not intended, nor would it be feasible or in line with global industry practices or policies of other Multilateral Development Banks (MDBs). It would also lead to an impracticable situation if IFC's policies had to be applied to a portfolio that IFC did not fund and could not influence. The general principle followed in applying IFC policies is that they are forward-looking and apply to IFC's investments when made.

VII. In summary, neither the LS2 hydropower plant, where the alleged harm occurred, nor EVNI were required to apply IFC E&S Policies as they did not receive IFC financing. IFC is therefore unable to offer any project-specific actions in a Management Action Plan (MAP).

VIII. IFC appreciates CAO's systemic recommendations to further strengthen IFC's practices in managing E&S risks in its investments in FIs. These recommendations are aligned with and reflect improvements that IFC has already undertaken since 2010.

IX. In the MAP, IFC defines actions to further strengthen guidance for IFC staff on managing E&S risks in FI investments.

I. INTRODUCTION

1. This Management Report responds to the Compliance Advisor Ombudsman (CAO) investigation of a complaint in 2018, which alleged an equity investment of the International Finance Corporation (IFC) in An Binh Commercial Joint Stock Bank (ABBank or the Project) in Viet Nam could be related to environmental and social (E&S) impacts from a hydropower plant in Cambodia.
2. Established in 1993 in Southern Viet Nam, ABBank is a medium-sized private sector bank. It operates a network of 165 transaction points across 34 provinces and cities nationwide, offering a full suite of banking services with a focus on Small and Medium Sized Enterprises (SME) and retail clients. The current largest shareholders of ABBank include Hanoi General Export Import Corporation and Malayan Banking Berhad. Electricity of Viet Nam (EVN) was a shareholder in ABBank until 2016 when it fully divested pursuant to the government policy for state-owned enterprises to divest non-core holdings.
3. The Management Report is organized into seven sections. Section I is this Introduction. Section II outlines the project. Section III describes the CAO complaint case. Section IV outlines IFC Management's response to CAO's compliance investigation findings and recommendations. Section V discusses the consultations with ABBank, and the complainants and Section VI explains the Management Action Plan (MAP). Section VII provides the Conclusion. Annex A contains the MAP in table format.

II. THE PROJECT

4. On December 28, 2010, IFC subscribed to a convertible bond issued by ABBank. The Project (#29745) entailed IFC's equity investment of US\$40.6 million (VND 792 billion)³ in the form of mandatory convertible bonds. The aim of the investment was to increase financial inclusion, create jobs and reduce poverty in Viet Nam. In April 2013, IFC converted the bond into equity and, as a result, became a shareholder, holding 10 percent of ABBank's common equity. However, after opting out of ABBank's rights issue in December 2021, IFC's stake was diluted to 8.2 percent. In May 2024, IFC fully exited its equity position through a market sale, adhering to the Responsible Exit Principles.
5. Over the course of the relationship with ABBank, IFC also engaged with it in other financial and non-financial initiatives. IFC's first investment in ABBank was a US\$18 million trade line provided in April 2009 under IFC's Global Trade Finance Program Guarantee Facility, which remains active (#27851). In 2017, IFC, alongside other parallel lenders, extended a US\$150 million senior loan (#40081), with IFC's net exposure of US\$28.5 million, to support ABBank's lending to micro, and women-owned SMEs in Viet Nam. Between 2010 and 2021, IFC signed six Advisory Services agreements with ABBank, focusing on areas such as SME financing, agri-

³ US\$49 million was approved by IFC's Board in November 2010, of that US\$40.6 million was committed and disbursed.

financing, and corporate governance to help ABBank develop into a specialized bank servicing SMEs—an underserved segment of the Vietnamese economy.

6. The Project aligned with IFC’s FY2010-2012 strategy for Viet Nam, which aimed to enhance the country’s economic competitiveness during its transition to a market economy and promote inclusive growth. IFC sought to achieve this through investments and advisory support in SME finance, as well as strengthening corporate governance for local entrepreneurs. The Project presented a unique opportunity for IFC to advance its financial inclusion and poverty alleviation mandate by reaching underserved SMEs in frontier regions and supporting ABBank’s growth through new products and channels. Additionally, it aimed to promote corporate governance best practices and contribute to the development of Viet Nam’s capital markets.

7. The Project was appraised under the 2006 Sustainability Policy and was categorized as Financial Intermediary (FI) in accordance with that Policy. As per the Policy, ABBank was required to: (i) apply the IFC Exclusion List, (ii) follow national laws where the activity financed presented limited social or environmental risks; and (iii) apply the IFC Performance Standards (PS) where the activity financed presented significant social or environmental risks. The Policy also required the FI to establish and maintain an Environmental and Social Management System (ESMS) so that its investments meet IFC’s Policy requirements. IFC would monitor the FI’s performance based on the FI’s implementation of its ESMS. Neither the Policy nor the E&S Review Procedure (ESRP) in effect at the time of project appraisal required the application of IFC’s E&S requirements to the FI’s portfolio that existed prior to IFC’s investment.

8. During the course of IFC’s equity investment, IFC regularly supervised ABBank’s E&S performance. This supervision included reviewing the Annual E&S Performance Reports of ABBank from 2012 to 2023 and included a total of nine in-person as well as virtual Supervision Site Visits (SSV) at ABBank from 2012 to 2024.

9. Among its these supervision activities, IFC reviewed ABBank’s performance in implementing the Social and Environmental Management System (SEMS) Plan (now known as an Environmental and Social Action Plan, ESAP) in accordance with the Policy requirements in effect at the time.⁴ One ESAP item had incorrectly provided for the broader application of E&S requirements to the existing portfolio prior to IFC’s investment. However, this item was not monitored as it contradicted existing practice and was not required by the 2006 Sustainability Policy.

10. IFC provided support to ABBank to improve its ESMS and internal E&S capacity. Although ABBank made some of these improvements, it still lacked the proper E&S procedures and capacity to effectively apply the PSs to the sub-portfolio originated after IFC’s equity investment. As a result, ABBank’s E&S performance rating was rated partially unsatisfactory, and this rating remained unchanged at the time of IFC’s full divestment in 2024. While some shortcomings in the implementation of E&S requirements in accordance with the Policy existed throughout the time of IFC’s investment in ABBank, these shortcomings had no impact on ABBank’s investment in Electricity of Viet Nam International (EVNI) or EVNI’s investment in the Lower Sesan 2 (LS2)

⁴ At the time of investment in 2010 the ESAP was called the SEMS Plan. This report uses the term ESAP to align with current E&S requirements and practice.

hydropower plant, which predated IFC's engagement with ABBank, which is cited in the CAO complaint (see Section III below).

A. Relationship to EVNI

11. EVNI is a subsidiary of EVN, a major Vietnamese state-owned enterprise specializing in electric power generation, transmission, and distribution. In May 2007, EVN and 17 partners, including ABBank, promoted the establishment of EVN Cambodia Joint Stock Company, renamed EVNI in 2008.

12. EVNI operates in Viet Nam, Laos, and Cambodia, where its main businesses are in investment, project management, and supervision consultation for construction of energy projects. ABBank bought 6 percent of EVNI shares in 2007 and increased its shareholding to 10.31 percent on November 1, 2010. These investments predated IFC's equity investment in ABBank. ABBank has not provided any further funding to EVNI since signing the Subscription Agreement with IFC in December 2010. Therefore, the proceeds from IFC's equity investment in ABBank were not used to finance ABBank's investment in EVNI nor EVNI's investment in LS2. EVNI was not subject to the application of IFC E&S requirements for the same reason.

B. Relationship to LS2

13. LS2 is Cambodia's largest hydropower plant—a 400-megawatt dam located in the Sesan district on the Sesan river about 25 kilometers upstream of the Mekong River.⁵

14. The exploration for LS2 started in 2007 when the Cambodian Ministry of Mines and Energy signed a memorandum of understanding with EVNI to carry out feasibility studies for the project.

15. Between 2007 and 2010, EVNI conducted feasibility studies and project planning and prepared technical documentation. An Environmental Impact Assessment was developed in 2008 and approved by the Cambodian government in June 2010. In 2011, EVNI finalized the Compensation and Resettlement Policy for the LS2 project.

16. At no time were the Cambodian government or EVNI required to conduct the above-mentioned studies in compliance with the IFC PSs, as these studies were completed before IFC's equity investment in ABBank. Therefore, the Cambodian government and EVNI were not subject to IFC E&S requirements.

17. During 2007-2011, EVNI was the majority shareholder of LS2. EVNI's expenses incurred during this exploration phase amounted to approximately US\$9.3 million (VND 231 billion).

18. In 2011, the Cambodian government approved the development of LS2, with EVNI initially holding a 51 percent stake and the Royal Group of Cambodia holding 49 percent. However, after 2011, EVNI did not contribute further capital for development of LS2.⁶

⁵ Information about the Subproject of the Subproject is drawn from publicly available sources or the CAO Investigation Report. IFC never had any relationship to the Subproject of the Subproject and its operators.

⁶ EVNI, 2011 Annual Report, https://static2.vietstock.vn/data/OTC/2011/BCTN/VN/EVNI_BCTN_2011.pdf

19. In 2012, the Royal Group of Cambodia and China's Hydrolancang International Energy, a subsidiary of China Huaneng Group, signed an agreement to develop the project. China Huaneng Group is a large Chinese state-owned electricity generation company. EVNI retained a 10 percent stake in the project that was provided by the new consortium to compensate EVNI for its expenses during the exploration phase.⁷

20. Construction of the LS2 dam started in 2013. Resettlement took place in 2015-2016. The reservoir was filled in 2017, and construction was completed in 2018. EVNI did not financially or operationally contribute to the construction of the dam.

21. LS2 went into operation in 2018 and has since been owned and operated by Hydropower LS2 Company, a joint venture between Hydrolancang International Energy and the Royal Group of Cambodia. EVNI retains its minority stake.

22. ABBank currently maintains a 10.31 percent equity stake in EVNI, which itself maintains its 10 percent of LS2 compensating for their contribution during the exploration phase of LS2. This translates to an indirect ownership of only 1.031 percent in LS2 for ABBank. ABBank does not have any contractual relationship with Hydropower LS2 Company nor any representation on its board.

23. IFC has not provided any financing, directly or indirectly to LS2, China's Hydrolancang International Energy, the Royal Group of Cambodia or EVNI. Neither entity has been required to apply E&S requirements. Therefore, LS2 cannot be treated as an IFC investment project, sub-project, or sub-sub-project, and IFC E&S Requirements don't apply to LS2.

III. CAO COMPLAINT

24. In June 2018, CAO notified IFC of three complaints that had been filed with CAO by three separate groups of villagers located in the Stung Treng and Ratanakiri Provinces of Cambodia, assisted by three international civil society organizations (CSOs). The complaints claimed that the communities were, or might be, affected by the environmental and/or social impacts derived from LS2 and that IFC was actively exposed to LS2 through its investments in Vietinbank and ABBank.

25. CAO found the complaints to be eligible in July 2018 and began an assessment. The assessment period, defined in the CAO Policy to take 90 business days, was extended over several years due to the COVID-19 pandemic and the need to establish contact with additional stakeholders whose views were deemed relevant.

26. The complainants originally requested CAO to keep their identities confidential due to concerns for personal security, and CAO was only able to share a summary of the complaints with IFC in September 2021.

27. After almost four years, the parties to the complaints did not agree to participate in a dispute resolution process and the case was transferred to compliance appraisal in 2022.

⁷ EVNI, 2023 Audited Financial Statement, http://evni.vn/wp-content/uploads/2024/03/Bao-cao-kiem-toan-nam-2023_signed.pdf

28. On November 18, 2022, CAO completed its appraisal report, concluding that the complaints merited a compliance investigation in relation to IFC's investment in ABBank, despite Management Response of July 2022 clarifying there was no direct or indirect link between IFC and the LS2 project.⁸

29. CAO came to this conclusion by relying on the SEMS Plan (now called ESAP) in the legal agreement signed between IFC and ABBank, which erroneously contained a broadly formulated requirement for ABBank with respect to the application of IFC's E&S Policy and related requirements to the existing portfolio of ABBank prior to IFC's investment. However, this erroneous drafting did not reflect the intent of the parties or IFC's E&S Policies.

30. In August 2023, CAO received another complaint in relation to E&S impacts from LS2 and IFC's alleged exposure to LS2 through an equity investment in Postal Savings Bank of China (PSBC). CAO closed the case at appraisal, confirming that IFC had not been exposed to LS2 through its investment in PSBC.⁹ Confirming that there was insufficient evidence of a financial relationship, CAO also closed the case relating to the complaint in relation to E&S impacts from LS2 via our exposure in Vietinbank.

31. In November 2024, CAO submitted its Compliance Investigation Report regarding IFC's investment in ABBank.

IV. MANAGEMENT RESPONSE TO CAO FINDINGS AND RECOMMENDATIONS

32. This section responds to CAO's findings and recommendations and explains the requirements of the IFC Sustainability Policy in relation to equity investments.

A. IFC Responses to CAO Findings

33. IFC's investment in ABBank in 2010 was subject to the 2006 Sustainability Policy and PS, together considered the IFC Sustainability Framework.

34. The 2006 Sustainability Framework does not provide that the IFC E&S requirements be applied to the portfolios of FI clients that existed prior to IFC's investment in the FI client. The 2006 Sustainability Framework set out that "FIs providing long-term corporate finance or project finance were required to require the recipient of such finance to: (i) follow national laws where the activity financed presents limited social or environmental risks; and (ii) apply the Performance Standards where the activity financed presents significant social or environmental risks."¹⁰ Further, the Policy provides that "The FI will be required to establish and maintain an Environmental and

⁸ https://www.cao-ombudsman.org/sites/default/files/downloads/CAO_Compliance%20Appraisal%20Report_Cambodia%20FI%2001-3_December%202022_EN.pdf

⁹ CAO Appraisal Report, 2024, https://www.cao-ombudsman.org/sites/default/files/downloads/CAO-AppraisalReport-CambodiaPSBC-02-ENG-Sept2024_0.pdf

¹⁰ 2006 Sustainability Policy, paragraph 28, page 6.

Social Management System to ensure that its investments meet IFC's requirements, and IFC will monitor the FI's performance on the basis of the Management System."¹¹ Aligned with market practice, investments in this context are understood to refer to the future business activities to be funded by IFC.

35. CAO's findings do not appear to be aligned with the requirement of the 2006 Sustainability Policy. The application of IFC's E&S requirements to a FI client's existing portfolio prior to IFC's investment was never intended or practiced. Although the IFC 2006 Sustainability Policy applicable at the time of IFC's equity investment in ABBank is not explicit on this aspect, the update of the IFC Sustainability Framework in 2012 clarified various aspects of how E&S requirements would apply to FI clients. The 2012 Sustainability Policy specifies that where IFC provides equity or financial support for a general purpose, requirements "apply to the portfolio of the financial intermediary that is *originated from the time IFC became a shareholder or investor*."¹²

36. CAO's assessment that the Sustainability Policy requirements apply to a FI client's portfolio not funded by IFC is concerning. It would not be commercially feasible nor in line with global industry practices or policies of other MDBs to expect a FI client to retroactively and unilaterally apply E&S requirements to projects that predated the MDB investment. It should also be noted that under general legal principles laws and policies are not applied retroactively unless such application is expressly envisaged and mentioned in the relevant law or policy.

37. In this case, the practical implication of applying IFC E&S requirements to ABBank's existing portfolio would mean that ABBank would have to renegotiate contracts with EVNI entered into and executed prior to IFC's investment. EVNI in turn, would have been required to renegotiate contracts with its partners in Cambodia and redo completed feasibility studies, including the 2008 Environmental Impact Assessment, to comply with IFC PSs. Consequently, Cambodian authorities would have had to reexamine the approval of the project and reissue environmental licenses.

38. Such an approach would lead to an impractical and commercially unviable situation. The general principle followed in applying IFC policies is that they are forward-looking and apply to IFC's investments when made and where IFC funds are used.

39. Although the E&S requirements included in the legal agreement between IFC and ABBank in 2010 were broadly drafted, IFC conducted its activities on the basis of its policy guidelines and the Sustainability Policy in place which did not envisage retroactive application of the E&S requirements to the existing portfolio. For the purpose of determining compliance with the Sustainability Policy, the ABBank documentation needs to be read within the bounds of the Sustainability Policy. The presence of E&S requirements set out in the legal agreement including the ESAP cannot be construed to expand or restrict the scope of the Board approved Sustainability Policy.

B. IFC's Relationship to Related Harm

¹¹ 2006 Sustainability Policy, paragraph 29, page 6.

¹² 2012 Sustainability Policy, paragraph 37.

40. The CAO investigation report documents the experience of the complainants in relation to LS2. CAO was able to engage with national authorities in Cambodia who have implemented and/or overseen resettlement and construction of the dam. However, over the eight-year period during which CAO processed the three complaints related to LS2, CAO was not able to contact the owner and operator of LS2. CAO was also unable to contact EVNI and notes that its findings do not benefit from a full review of EVNI and LS2 project information.¹³

41. The CAO Policy requires CAO, whilst making findings regarding harm, to assess that such harm is related to IFC non-compliance with its E&S Policies. It is unclear to IFC how the harm alleged by the complainants is linked to alleged non-compliance with its E&S Policies given the facts that The Sustainability Policy does not require application of IFC's E&S requirements to an FI's portfolio prior to IFC's investment; and accordingly IFC's E&S Policies did not apply to EVNI or LS2.

42. The CAO report indicates that IFC missed opportunities to require ABBank to apply IFC's E&S requirements to EVNI and consequently to LS2 and this potentially caused harm to the complainants. CAO acknowledges, however, that it is uncertain if such application would have resulted in feasible options to mitigate alleged harm to the affected communities.¹⁴

43. The CAO investigation report does not further clarify in practical terms how the requirements of the 2006 Sustainability Policy could have been applied retroactively to LS2.

44. LS2 was constructed and is operated by the Royal Group of Cambodia and China's Huaneng Group. Neither company has ever received IFC financing or was required to apply IFC E&S requirements.

45. IFC therefore disagrees with CAO's findings that there was a non-compliance of IFC with its E&S Policies that could have caused or contributed to the harm experienced in relation to LS2 in Cambodia.

C. IFC Response to CAO Recommendations

46. The CAO Policy, which sets out the process for CAO's investigation, states that where CAO finds non-compliance and related harm, CAO makes recommendations for IFC to consider when developing a MAP. Recommendations may relate to the remediation of project- or sub-project-level non-compliance and related harm, and/or steps needed to prevent future non-compliance, as relevant in the circumstances.¹⁵ This sub-section provides IFC's response to CAO's recommendations at the project and systemic levels. IFC's MAP is presented in section V.

LS2 Project Level Recommendations

47. As previously indicated, Management disagrees with CAO findings that there was a non-compliance with the Sustainability Policy because the Policy's requirements are not to be applied retroactively. IFC's inclusion of a broadly drafted requirement in its ESAP, as part of the legal

¹³ CAO Investigation Report, p.22.

¹⁴ CAO Investigation report pp.54-69.

¹⁵ CAO Policy, paragraph 113.

agreement, should not be considered as expanding the scope of the Sustainability Policy. IFC funds have not been used to finance EVNI or LS2, and neither entity was subject to the IFC E&S requirements. As a result, IFC is unable to offer any LS2 related MAP actions.

Systemic-Level Recommendations

48. IFC thanks CAO for its thorough analysis of IFC practice on FI investments in 2010. CAO's recommendations are based on the 2006 Sustainability Framework and related procedures that were in effect at the time of investment. Since 2010, IFC's E&S risk management framework and internal governance structure have significantly evolved and been strengthened. E&S risk management at IFC is now governed by the 2012 Sustainability Framework.

49. In July 2024, IFC continued strengthening its E&S function by decentralizing decision-making to regional teams and reinforcing risk management. These changes further align the ownership and accountability of regional leadership for managing E&S risks throughout the project cycle, responding to issues raised by affected communities. In January 2026 the integrated World Bank Group (WBG) E&S structure of E&S Makers and E&S Checkers has been introduced. The structure consists of (i) **Makers:** frontline E&S teams in IFC, IBRD/IDA, and MIGA and a Global WBG E&S Policy and Operations unit; and (ii) **Checkers:** a Global WBG E&S Risk unit. The new structure provides a more robust system for proactive risk management, supported by a simplified and clearer decision-making framework aligned with the WBG's risk governance model. Makers and Checkers are set up to work closely together to support the implementation of the Sustainability Framework across IFC investments. The tasks and responsibilities for achieving IFC and client compliance with the Sustainability Policy and PSs, respectively, are defined in the ESRP.

50. IFC's ESRP is a living document that is regularly updated to reflect changes in institutional structure and lessons learned from IFC's operations. IFC welcomes CAO's feedback from its complaint portfolio. A December 2024 update of the ESRP incorporated CAO's similar systemic recommendations from other CAO cases.¹⁶

51. IFC has been continuously enhancing guidance for clients and staff, internal E&S capacity and procedures for FI investments. Today, IFC has specialized staff in FI E&S risk management in each region, with relevant training, knowledge, and experience to review and monitor FI investments.

52. *External Review.* The External Review of IFC's and MIGA's Environmental and Social Accountability, including the CAO's Role and Effectiveness (External Review) in 2019 was an important milestone in the evolution of IFC's E&S risk management framework. Among other actions, IFC clarified the E&S requirements for FIs by updating procedures on PS application to sub-projects by FI clients and IFC supervision of such sub-projects. IFC also introduced a web-based ESMS diagnostic tool to help analyze the quality of a client's ESMS. Further, IFC

¹⁶ The most recent ESRP update incorporated changes suggested by the CAO on similar recommendations in the following cases: Bridge 01, Kenya; Bridge 04, Kenya; Awba, Myanmar; Lonmin, South Africa; Titan 02 and 03, Egypt, Salala, Liberia; Masdar Baynouna, Jordan.

implemented additional disclosure requirements, expanded FI monitoring capacity and enhanced supervision of FI projects.¹⁷

53. *Collaboration with CAO.* Over the years, IFC has also benefited from close collaboration with CAO. In 2011, CAO initiated a compliance audit of IFC’s financial sector investments. In 2013, IFC responded to CAO’s audit with an action plan.¹⁸ CAO has issued monitoring reports in 2014, 2015, 2017 and 2025.¹⁹ In its response to CAO’s 2017 monitoring report, IFC described evolving practices at appraisal and in supervision and clarified E&S disclosure requirements.²⁰ Lessons learned from other CAO cases and IFC’s response to them also greatly contributed to strengthening E&S risk management in FI investments. IFC’s response to individual recommendations below highlights relevant MAP actions from other CAO cases.

54. IFC is updating the Sustainability Framework that includes a public consultation process with stakeholders around the world. CAO is an important stakeholder in this process and IFC works with CAO’s Advisory Function to inform the update.

55. In addition to these key developments over the last 15 years, the section below highlights some but not all relevant actions that have already been implemented in response to CAO’s systemic recommendations.

CAO Systemic Recommendation 1

Enhance E&S capacity and procedures for FI investments in order to ensure an adequate understanding of E&S risks and the client’s E&S capacity during due diligence and proper monitoring of all E&S commitments during supervision. The capacity should be developed to ensure that IFC has specialized staff in FI E&S risk management with relevant training, knowledge, and experience to review and monitor FI investments

56. Since 2010 IFC has been implementing significant capacity building efforts to enhance FI investment due diligence, monitoring, and supervision of E&S commitments. The number of E&S specialists covering FI investments has increased from five to about 30 specialists, including nine regional FI industry leads. In the East Asia region, the number of E&S specialists focused on FI transactions has increased from two short-term consultants to four regular staffers who receive support from additional short-term consultants.

57. In 2013, IFC expanded its FI monitoring efforts. In addition to annual supervision of all FI-1 clients, IFC now monitors, on a yearly basis, all FI-2 clients whose sub-projects are subject to the PSs.²¹ Greater support for higher-risk clients required reallocation of resources. In 2018 IFC

¹⁷ See External Review of IFC/MIGA E&S Accountability, including CAO’s Role and Effectiveness Report and Recommendations, 2020, <https://thedocs.worldbank.org/en/doc/578881597160949764-0330022020/original/ExternalReviewofIFCMIGAESAAccountabilitydisclosure.pdf>, and IFC/MIGA Update of Non-Policy Actions, <https://www.ifc.org/content/dam/ifc/doc/2023/202104-ifc-miga-non-policy-actions-update.pdf>

¹⁸ IFC, 2013, E&S Risk Management of Financial Institutions at the IFC, <https://www.cao-ombudsman.org/sites/default/files/downloads/IFCPresentationforCODE-ESRMforFIs-final.pdf>.

¹⁹ CAO, 02/03/2025, <https://www.cao-ombudsman.org/cases/multi-regional-cao-compliance-audit-ifcs-financial-sector-investments>.

²⁰ IFC, 2017, IFC Response to “Third Monitoring Report of IFC’s Response to CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries”, <https://www.cao-ombudsman.org/sites/default/files/downloads/IFCResponseToCAOThirdFIMonitoringMarch2017.pdf>.

²¹ IFC rates FI investments for E&S risk as FI-1 high risk, FI-2 medium risk and FI-2 low risk.

recalibrated its E&S risk approach to streamline appraisal and monitoring processes for low- and medium-low-risk FI clients, thereby enabling it to dedicate more resources to high- and medium-high-risk FI clients. Since 2019, a FI high risk list has been in place and monitored by the lead FI E&S risk officers, who also accompany regional E&S specialists on supervision visits.

58. E&S staff receive regular training on IFC PSs and procedures, including dedicated onboarding programs as well as regional capacity building. Some relevant recent FI-focused sessions for E&S Specialists were delivered as part of regular department wise training events and FI workshops, including a one-week FI workshop in Bangkok in 2024, three day FI workshop in Istanbul in 2025 and dedicated FI training sessions in Vienna, Bogota and Cairo in 2025 and 2026.

59. Management notes that IFC MAPs in response to other CAO investigations also include relevant staff and client training and capacity building initiatives. In its MAP in response to the Bridge 4, Kenya investigation, IFC developed guidance to IFC Nominee Directors. Since October 2023, new IFC Nominee Directors receive guidance on E&S risk review. The first two targeted training sessions on GBV Risk Governance for Nominee Directors took place in January and June 2024. They will be followed by an annual refresher.²²

CAO Systemic Recommendation 2

Develop and disseminate among E&S staff detailed guidance on E&S due diligence requirements for FI clients' general-purpose investments, such as equity investments. This guidance should include, among other things, explicit guidance on:

- a. How to review a representative sample of high-risk investments, transactions, products, and sectors in the FI's portfolio during due diligence to define the required E&S capacity for the client and to determine costs of the project ESAP and the average annual costs of client ESMS implementation.
- b. How to assess the minimum necessary E&S staff required for the FI based on the E&S risk of the portfolio and the FI's turnover and capacity to onboard new E&S staff. In this and other cases, CAO has observed that shortcomings in the client's E&S capacity is often a recurrent problem. IFC should develop tools and parameters for its E&S staff to assess the client's E&S staff needs in relation to the client's E&S risk portfolio.

60. Since 2010, the update of the IFC Sustainability Framework in 2012 clarified many E&S requirements on due diligence and monitoring for both IFC staff and clients. IFC also developed an FI Interpretation Note in 2012, which was updated in 2018 and then replaced by a new Guidance Note on FIs in 2023. This Guidance Note sets out to (i) further clarify what is considered a higher E&S risk transaction; (ii) include the definition of a higher E&S risk transaction in the criteria used by FIs to define these kinds of transactions; (iii) clarify the circumstances requiring enhanced FI due diligence; (iv) define E&S responsibilities of FI clients with regard to sub-projects and sub-sub-projects; (v) codify sub-project disclosure commitments; and (vi) enhance clarity on the scope of application of E&S requirements, including the IFC PSs, by FI clients for higher E&S risk transactions.

²² IFC Management Progress Report on Implementation the MAP for Bridge 04, October 2024, <https://www.cao-ombudsman.org/sites/default/files/downloads/IFC-ManagementProgressReport-BIA04-Oct2024-ENG.pdf>

61. Over the years, IFC has developed and strengthened its ESRP, which is accompanied by Tipsheets that provide guidance for IFC staff in Environmental and Social Due Diligence (ESDD) and monitoring for FI investments. Relevant updates include: (i) strengthening of key supervision performance indicators; (ii) clarity on risk assessment procedures for FI transactions; (iii) guidance for specialists on when enhanced due diligence of an FI's ESDD is required; (iv) requirements to verify client resources for ESMS implementation, as part of ESAP; (v) strengthening of the verification of ESMS implementation as part of disbursement requirements; and (vi) improved guidance for specialists on risk assessment tools and their application. In a December 2024 update of the ESRP reflected, among other changes, lessons learned from recent CAO cases.²³

62. IFC's Lead Environmental and Social Specialist (LESS) is responsible for the quality and consistency of the ESAP before it is submitted for review and clearance and inclusion in the investment agreements. The client is requested to prepare cost estimates for ESAP implementation and to share these with IFC. The LESS along with the investment team reviews the adequacy of the client cost estimates for the implementation of the ESAP, and as needed, engages with the client if there are concerns about its ability to provide the resources needed or its understanding of such needs.

63. IFC highlights that its MAP in response to CAO's investigation on Lonmin, South Africa included an action to develop guidance and strengthen internal control processes: (i) to review the adequacy of client estimates of resources for the implementation of the ESAP as required in PS1 (2012), paragraph 16; and (ii) to document the review as part of the appraisal documentation. As a result, the ESRP and corresponding guidance have been updated. Training was delivered for key E&S staff on 12th of February 2024 to share specific guidance on what is expected from the LESS and disseminated widely. IFC's project E&S review and documentation system, ESG360 includes a module on ESAP tracking that has been updated to enter an ESAP cost estimate.²⁴

64. In 2025 IFC developed guidance for E&S staff on how to review a representative sample of high-risk investments in FI transactions. CAO provided feedback and input.

65. IFC welcomes CAO's suggestion to strengthen guidance on assessing the FI client's capacity needs and includes a MAP action in response to this recommendation. See section VI. below.

CAO Systemic Recommendation 3

Conduct a portfolio review of IFC's active equity FI investments since 2006 that include an obligation in the legal agreements (ESAP or elsewhere) for the client to apply its ESMS to "existing loans and investments" and ensure that adequate monitoring of the legal commitments is carried out.

66. Management considers that this CAO recommendation is not relevant, as there is no systemic compliance issue to address. As described above, although the requirements included in the legal agreement between IFC and ABBank in 2010 were erroneously broad, IFC's review has been

²³ The 2024 update ESRP incorporated changes suggested by the CAO on similar recommendations in the following cases: Bridge 01, Kenya; Bridge 04, Kenya; Awba, Myanmar; Lonmin, South Africa; Titan 02 and 03, Egypt, Salala, Liberia; Masdar Baynouna, Jordan.

²⁴ IFC Management Progress Report on MAP Implementation for Lonmin, South Africa, January 2024, <https://www.cao-ombudsman.org/cases/south-africa-lonmin-02marikana>.

guided by Sustainability Policy and therefore there is no non-compliance with the IFC Sustainability Policy. Legal agreements need to be read within the bounds of the Sustainability Policy, and their interpretation and implementation cannot be contradictory to the spirit and substance of a board approved policy.

67. Considering that the 2006 and 2012 Sustainability Policies do not mandate the retroactive application of IFC E&S requirements to the existing portfolios of FIs, in cases where such a requirement was mistakenly broadly drafted, IFC has not, does not, and will not enforce such provisions.

68. In this context IFC highlights that the 2012 Sustainability Policy specifies that where IFC provides equity or financial support for a general purpose, requirements apply to the portfolio of the financial intermediary that is originated from the time IFC became a shareholder or investor.²⁵

69. IFC has reviewed and updated its legal agreement templates and adjusted them to reflect the policy requirements set out in section 37 of the 2012 Sustainability Policy.

70. Further, as part of IFC's MAP in response to CAO's investigation on RCBC, Philippines, IFC developed and disseminated a Good Practice Note for clients and staff on sample E&S legal agreements in FI investments.²⁶ The Tip Sheet for FI's was published on the IFC website in March 2023 and is accessible to the public.²⁷

CAO Systemic Recommendation 4

Update its ESRP to provide more explicit guidance to E&S staff on how to structure investments to best use IFC's leverage during the life of the investments to ensure a client's compliance with E&S requirements. As has been recommended in previous cases, this should include explicit guidance on the need to link E&S commitments in the ESAP or legal agreement to investment milestones such as commitment, first disbursement, and subsequent disbursements, to ensure that IFC has sufficient leverage to require their completion.

71. As explained above, IFC's ESRP is a living document that is maintained up to date to reflect changes in institutional structure and lessons learned from IFC's operations. A December 2024 ESRP update incorporated CAO's similar systemic recommendations from other CAO cases.²⁸

72. Also as mentioned above, IFC has made FI updates to the ESRP and corresponding Tipsheets that included: (i) strengthening of key supervision performance indicators; (ii) clarity on risk assessment procedures for FI transactions; (iii) guidance for specialists on when enhanced due diligence of an FI's ESDD is required; (iv) requirements to verify client resources for ESMS implementation, as part of the ESAP; (v) strengthening of the verification of ESMS

²⁵ 2012 SP, paragraph 37.

²⁶ IFC 3rd Management Progress Report on MAP implementation for RCBC, Philippines, November 2024, <https://www.cao-ombudsman.org/cases/philippines-rizal-commercial-banking-corporation-rcbc-01>.

²⁷ IFC, 2023, Tipsheet for Financial Intermediaries, <https://documents1.worldbank.org/curated/en/099442503092324349/pdf/IDU040b830730f0c3047070bce0007e5bc473641.pdf>.

²⁸ A 2024 update of the ESRP incorporated changes suggested by the CAO on similar recommendations in the following cases: Bridge 01, Kenya; Bridge 04, Kenya; Awba, Myanmar; Lonmin, South Africa; Titan 02 and 03, Egypt, Salala, Liberia; Masdar Baynouna, Jordan.

implementation as part of disbursement requirements; and (vi) improved guidance for specialists on risk assessment tools and their application. IFC also developed an ESMS Diagnostics Tool and made it public to improve consistency in designing and implementing FI clients' ESMSs.

73. To strengthen the effective implementation of the ESRP, IFC proposes a new MAP action that will develop guidance both for Investment and E&S staff to better use its leverage in different types of FI projects including explicit guidance on linking E&S commitments in the ESAP to investment milestones such as commitment, first disbursement, and subsequent disbursements.

V. CONSULTATIONS WITH THE COMPANY AND COMPLAINANTS

74. As per the CAO Policy, during the preparation of a MAP, IFC consults with complainants and the client. In this case, IFC informed the complainant representatives that IFC is unable to offer any project specific actions in response to CAO's recommendations.

Consultation with Complainants

75. The three groups of villagers living in the area affected by LS2 are represented by three international CSOs - International Rivers, International Accountability Project, and Mekong Watch.

76. In 2022 at compliance appraisal, IFC engaged with both the complainant representatives and members of the communities directly. In a virtual meeting IFC explained that ABBank's relationship to EVNI and LS2 predated IFC's investment and that IFC's E&S Policies do not apply retroactively.

77. During CAO's independent investigation (2022-2024), IFC did not engage with the complainants or their representatives.

78. During the preparation of this Management Report and MAP, IFC had a virtual meeting with the complainants' representatives, informing the complainants that IFC's position had not changed. The complainants' representatives explained that they would need clarity on whether IFC could offer any project-specific actions before contacting the complainants themselves.

79. In February 2025 IFC informed the complainants' representatives that IFC is unable to offer any project-specific actions in response to CAO's recommendations.

80. IFC understands the complainants' disappointment and thanks them and their representatives for their patience and willingness to engage in this CAO process. Management regrets that CAO's investigation created expectations among the complainants and their representatives for remedial actions in relation to a sub-sub-project that IFC did not finance.

Company's Position

81. ABBank maintains that it has no contractual relationship or business with the sub-sub project in Cambodia and cannot take any action in response to the CAO complaint received in 2018. ABBank holds a 10.31 percent equity stake in EVNI, which itself owns 10 percent of the LS2 dam. This translates to an indirect exposure of only 1.031 percent. ABBank's current management team confirmed its understanding that IFC's E&S requirements were to be applied only to loans and investments made after the effective date of the agreement with IFC. This understanding aligns with the general principles of retroactivity, i.e., regulations are applied prospectively, not retroactively unless stated otherwise.

82. Additionally, ABBank has not provided any further funding to EVNI since signing the equity investment with IFC in December 2010. ABBank confirmed that no IFC funds have been used to finance ABBank's investment in EVNI nor EVNI's investment in LS2.

Engagement with the CAO

83. Prior to submission of this report, Management regularly engaged with CAO on IFC's proposed response to CAO's systemic recommendations. IFC answered questions on the proposed MAP and adjusted its proposal accordingly.

VI. MANAGEMENT ACTION PLAN (MAP)

84. The MAP presented in Annex A reflects the actions and limitations described in the section above. It presents two systemic actions in response to CAO's institutional level recommendations.

85. The actions presented in the MAP have been consulted with the CAO.

86. IFC will develop an IFC Internal Tip Sheet both for Investment and E&S staff providing guidance on assessing FI clients' capacity needs, including a methodology for estimating associated costs related to capacity building efforts and ESMS implementation.

87. Following an update of the ESRP to reflect institutional arrangements, IFC will review and update relevant guidance dedicated to investments through financial intermediaries. The update will provide guidance for Investment and E&S staff on developing appropriate measures for different transactions, enhancing the use of leverage in various types of FI projects. This will also include specific guidance on linking E&S commitments in the ESAP to key investment milestones, such as commitment, first disbursement, and subsequent disbursements.

VII. CONCLUSION

88. Management appreciates CAO's constructive engagement and the detailed assessment in CAO's Compliance Investigation Report.

89. Management disagrees with CAO findings that there was harm due to IFC's non-compliance with the Sustainability Framework. The requirements of the Sustainability Framework are not intended to be applied retroactively. Further, no IFC funds have been used to finance EVNI or LS2. Accordingly, in absence of non-compliance, there is no basis for establishing the requisite link between IFC's alleged non-compliance and any harm to complainants whose projects have been initiated prior to IFC investment and did not use any IFC proceeds. Therefore, IFC is unable to offer any LS2 related MAP activities.

90. Management appreciates CAO's institutional level recommendations to further strengthen IFC's practice in managing E&S risk in FI investments. These recommendations are aligned with and reflect improvements that IFC has already undertaken since the 2010 investment. IFC proposes two specific actions in the MAP to further strengthen guidance for IFC staff and clients on managing E&S risk in FI investments.

ANNEX A: MANAGEMENT ACTION PLAN (MAP)

This table below present IFC’s proposed MAP in response to systemic recommendations that IFC is able to address.

Systemic-Level Recommendations/Actions		
CAO RECOMMENDATION	ACTION/ACTIVITY	DELIVERABLE
<p>Recommendation 1: Enhance E&S capacity and procedures for FI investments in order to ensure an adequate understanding of E&S risks and the client’s E&S capacity during due diligence and proper monitoring of all E&S commitments during supervision. The capacity should be developed to ensure that IFC has specialized staff in FI E&S risk management with relevant training, knowledge, and experience to review and monitor FI investments.</p>	<p>Since 2010 IFC has been implementing significant capacity building efforts to enhance FI investment due diligence, monitoring, and supervision of E&S commitments. The number of E&S specialists covering FI investments has increased from 5 to about 30 specialists, including 9 regional FI industry leads. In the East Asia region, the number of E&S specialists focused on FI transactions has increased from two short-term consultants to four regular staffers who receive support from additional short-term consultants.</p> <p>In 2013, IFC expanded its FI monitoring efforts. In addition to annual supervision of all FI-1 clients, IFC now monitors, on a yearly basis, all FI-2 clients subject to the application of the PS by their sub-projects. Greater support for higher-risk clients required reallocation of resources. In 2018 IFC recalibrated its E&S risk approach to streamline appraisal and monitoring processes for low- and medium-low-risk FI clients, thereby enabling it to dedicate more resources to high- and medium-high-risk FI clients. Since 2019, an FI high risk list has been in place and monitored by the lead FI E&S risk officers, who also accompany regional E&S specialists on supervision visits.</p> <p>E&S staff receive regular training on IFC PSs and procedures, including dedicated onboarding programs as well as regional capacity building. Some relevant recent FI-focused sessions for E&S specialists were delivered as part of regular department wide training events and FI workshops, including a one-week FI workshop in Bangkok in 2024, three day FI workshop in Istanbul in 2025, dedicated FI training sessions n Vienna, Bogota, and Cairo in 2025 and 2026.</p>	<p>COMPLETED TRAINING: Some relevant recent FI-focused sessions to the E&S Specialists held in Bangkok in 2024, Istanbul, Vienna, Bogota and Cairo in 2025 and 2026.</p> <p>COMPLETED GUIDANCE: For some relevant recent guidance see IFC MAP on Bridge 4, Kenya guidance to IFC Nominee Directors.</p>

	<p>Management notes that IFC MAPs in response to other CAO investigations also include relevant staff and client training and capacity building initiatives. In its MAP in response to the Bridge 4, Kenya investigation, IFC has developed guidance to IFC Nominee Directors. Since October 2023 new IFC Nominee Directors receive guidance on E&S risk review. The first two targeted training sessions on GBV Risk Governance for Nominee Directors took place in January and June 2024. They will be followed by an annual refresher.</p>	
<p>Recommendation 2: Develop and disseminate among E&S staff detailed guidance on E&S due diligence requirements for FI clients’ general-purpose investments, such as equity investments. This guidance should include, among other things, explicit guidance on:</p> <p>a. How to review a representative sample of high-risk investments, transactions, products, and sectors in the FI’s portfolio during due diligence to define the required E&S capacity for the client and to determine costs of the project Environmental and Social Action Plan (ESAP) and the average annual costs of client ESMS implementation.</p> <p>How to assess the minimum necessary E&S staff required for the FI based on the E&S risk of the portfolio and the FI’s turnover and capacity to onboard new E&S staff. In this and other cases, CAO has observed that shortcomings in the client’s E&S capacity is often a recurrent problem. IFC should develop tools and parameters for its E&S staff</p>	<p>Since IFC’s investment in 2010, the update of the IFC Sustainability Framework in 2012 clarified many E&S requirements on due diligence and monitoring for both IFC staff and clients. IFC also developed an FI Interpretation Note in 2012, which was updated in 2018 and then replaced by a new Guidance Note on FIs in 2023. The Guidance Note sets out to (i) further clarify what is considered a higher E&S risk transaction; (ii) include the definition of a higher E&S risk transaction in the criteria used by FIs to define these kinds of transactions; (iii) clarify the circumstances requiring enhanced FI due diligence; (iv) define E&S responsibilities of FI clients with regard to sub-projects and sub-sub-projects; (v) codify sub-project disclosure commitments; and (vi) enhance clarity on the scope of application of E&S requirements, including the IFC PSs, by FI clients for higher E&S risk transactions.</p> <p>Over the years, IFC has developed and strengthened its ESRP which is accompanied by Tipsheets that provide guidance for IFC staff on ESDD and monitoring for FI investments. Relevant updates include: (i) strengthening of key supervision performance indicators; (ii) clarity on risk assessment procedures for FI transactions; (iii) guidance for specialists on when enhanced due diligence of an FI’s ESDD is required; (iv) requirements to verify client resources for ESMS implementation, as part of ESAP; (v) strengthening of the verification of ESMS implementation as part of disbursement</p>	<p>COMPLETED GUIDANCE. Some relevant recent guidance includes: 2012 Sustainability Framework 2012 FI Interpretation Note (replaced) 2018 FI Interpretation Note (replaced) 2023 Guidance Note on Financial Intermediaries 2024, IFC ESRP 2024 IFC MAP on Lonmin, South Africa, guidance on ESAP resourcing and costing 2025 Tipsheet on FI Supervision 2025 Tipsheet on FI Portfolio Sample Review Criteria</p>

<p>to assess the client’s E&S staff needs in relation to the client’s E&S risk portfolio.</p>	<p>requirements; and (vi) improved guidance for specialists on risk assessment tools and their application. A December 2024 update of the ESRP reflected, among other changes, lessons learned from recent CAO cases.</p> <p>IFC’s Lead Environmental and Social Specialist (LESS) is responsible for the quality and consistency of the ESAP before it is submitted for review and clearance and inclusion in the investment agreements. The client is requested to prepare cost estimates for ESAP implementation and to share these with IFC. The LESS along with the investment team reviews the adequacy of the client cost estimates for the implementation of the ESAP, and as needed, engage with the client in case there are concerns about its ability to provide the resources needed or its understanding of such needs.</p> <p>IFC highlights that its MAP in response to CAO’s investigation on Lonmin, South Africa included an action to develop guidance and strengthen internal control processes i) to review the adequacy of client estimates of resources for the implementation of the ESAP as required in PS1 (2012), paragraph 16, and (ii) to document the review as part of the appraisal documentation. As a result, the ESRP and corresponding guidance have been updated. Training was delivered for key E&S staff on 12th of February 2024 to share specific guidance on what is expected from the LESS and s disseminated the guidance widely. IFC’s project E&S review and documentation system ESG360 includes a module on ESAP tracking that has been updated to enter an ESAP cost estimate.</p> <p>In 2025 IFC developed guidance for E&S staff on how to review a representative sample of high-risk investments in FI transactions. CAO provided feedback and input.</p>	
	<p>IFC Tipsheet providing guidance on assessing FI clients’ capacity needs, including a methodology for estimating associated costs related to capacity building efforts and ESMS implementation.</p>	<p>IFC internal Tipsheet disseminated and integrated in E&S and investment staff training. Timeline: Q2FY27.</p>

<p>Recommendation 3: Conduct a portfolio review of IFC’s active equity FI investments since 2006 that include an obligation in the legal agreements (ESAP or elsewhere) for the client to apply its ESMS to “existing loans and investments” and ensure that adequate monitoring of the legal commitments is carried out.</p>	<p>Management disagrees with this CAO recommendation. As described above, although the requirements included in the legal agreement between IFC and ABBank in 2010 were erroneously broad, IFC’s review has been guided by Sustainability Policy and therefore there is no non-compliance with the IFC Sustainability Policy. Legal agreements need to be read within the bounds of the Sustainability Policy, and their interpretation and implementation cannot be contradictory to the spirit and substance of a board approved policy.</p> <p>Considering that the 2006 and 2012 Sustainability Policies do not mandate the retroactive application of IFC E&S requirements to the existing portfolios of FIs in cases where such a requirement was mistakenly broadly drafted, IFC has not, does not, and will not enforce such provisions.</p> <p>In this context IFC highlights that the 2012 Sustainability Policy specifies that where IFC provides equity or financial support for a general purpose, requirements apply to the portfolio of the financial intermediary that is originated from the time IFC became a shareholder or investor.</p> <p>Over the years, IFC also has reviewed and updated its legal agreement templates and adjusted them to reflect the policy requirements set out in section 37 of the 2012 Sustainability Policy.</p> <p>Further, as part of IFC’s MAP in response to CAO’s investigation on RCBC, Philippines, IFC developed and disseminated a Good Practice Note for clients and staff on sample E&S legal agreements in FI investments. The Tip Sheet for FI’s was published on the IFC website in March 2023 and is accessible to the public.</p>	<p>COMPLETED GUIDANCE. Some relevant completed guidance includes:</p> <p>2012 Sustainability Policy</p> <p>2023 Guidance Note on Financial Intermediaries</p> <p>2024 IFC ESRP</p> <p>2022, IFC MAP on RCBC Philippines, Good Practice Note on E&S Legal Agreements</p>
<p>Recommendation 4: Update its ESRP to provide more explicit guidance to E&S staff on how to structure investments to best use IFC’s leverage during the life of the investments to ensure a client’s compliance with E&S requirements. As has been</p>	<p>The IFC’s ESRP is a living document that is maintained up to date to reflect changes in institutional structure and lessons learned from IFC’s operations. A December 2024 update of the ESRP incorporated CAO’s similar systemic recommendations from other CAO cases.</p> <p>IFC has made FI updates to the ESRP and corresponding Tipsheets that included: (i) strengthening of key supervision</p>	<p>COMPLETED PROCEDURES: Relevant recent guidance includes:</p> <p>2024 ESRP,</p> <p>2024 ESAP Tipsheet</p>

<p>recommended in previous cases, this should include explicit guidance on the need to link E&S commitments in the ESAP or legal agreement to investment milestones such as commitment, first disbursement, and subsequent disbursements, to ensure that IFC has sufficient leverage to require their completion.</p>	<p>performance indicators; (ii) clarity on risk assessment procedures for FI transactions; (iii) guidance for specialists on when enhanced due diligence of an FI's ESDD is required; (iv) requirements to verify client resources ESMS implementation, as part of the ESAP; (v) strengthening of the verification of ESMS implementation as part of disbursement requirements; and (vi) improved guidance for specialists on risk assessment tools and their application. IFC also developed an ESMS Diagnostics Tool and made it public to improve consistency in designing and implementing FI clients' ESMSs.</p>	
	<p>Following an update of the ESRP, IFC will review and update relevant internal guidance, dedicated to investments through financial intermediaries. The update will provide guidance for LESSs and IOs on developing appropriate measures for different transactions, enhancing the use of leverage in various types of FI projects. This will also include specific guidance on linking E&S commitments in the ESAP to key investment milestones, such as commitment, first disbursement, and subsequent disbursements.</p>	<p>IFC internal guidance disseminated and integrated in E&S and investment staff training. Timeline: Q2FY27.</p>

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The IFC Management Report is provided in response to the Investigation Report of the Office of the Compliance Advisor Ombudsman (CAO) relating to complaints of alleged non-compliance by IFC with its Performance Standards on Environmental and Social Sustainability in a project supported by IFC finance or investment.

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