

# **IFC MANAGEMENT RESPONSE TO THE CAO COMPLIANCE INVESTIGATION REPORT**

**Alexandria Portland Cement Company Egypt  
(Projects #27022 and #30274)**

**Middle East and North Africa**

July 30, 2021

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## ABBREVIATIONS AND ACRONYMS

ADL	Alexandria Development Limited
AF	Alternative Fuel
APCC	Alexandria Portland Cement Company
BCS	Broad Community Support
BSCC	Beni Suef Cement Company
CAO	Office of the Compliance Advisor Ombudsman
CEMS	Continuous Emission Monitoring System
CO <sub>2</sub>	Carbon Dioxide
CSR	Corporate Social Responsibility
E&S	Environmental and Social
EEAA	Egyptian Environmental Affairs Agency
EGP	Egyptian Pound
EHS	Environmental, Health, and Safety
EIA	Environmental Impact Assessment
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management System
ESP	Electrostatic Precipitator
ESRP	Environmental and Social Review Procedures
ESRS	Environmental and Social Review Summary
FY	Fiscal Year
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIIP	Good International Industry Practice
GRI	Global Reporting Initiative
HCl	Hydrochloric Acid
HR	Human Resources
IFC	International Finance Corporation
ISO	International Organization for Standardization
JV	Joint Venture
LESS	Lead Environmental and Social Specialist
LTEIL	Lafarge Titan Egyptian Investments Limited
NGO	Non-Governmental Organization
NO <sub>x</sub>	Nitrogen Oxides
OHS	Occupational Health and Safety
PM	Particulate Matter
PM10	PM10 describes inhalable particles, with diameters that are generally 10 micrometers and smaller
PS	Performance Standard
SCD	Sustainability Center for Development
SNCR	Selective Non-Catalytic Reduction
SO <sub>2</sub>	Sulfur Dioxide
TCE	Titan Cement Egypt

TOC	Total Organic Carbon
TSP	Total Suspended Particulates
UNGC	United Nations Global Compact
US\$	United States Dollar
VELP	Voluntary Early Leave Plan
WBG	World Bank Group

## EXECUTIVE SUMMARY

1. In November 2010, IFC made an indirect EUR80 million equity investment (the “investment”) in the Alexandria Portland Cement Company (APCC or the “company”), a company listed on the Egyptian Stock Exchange<sup>1</sup> and a subsidiary of the international cement manufacturer, Titan Cement International SA (“TCI,” and together with its subsidiaries and affiliates, the “Titan Group”). IFC made the investment by acquiring shares of APCC’s controlling shareholder, Alexandria Development Limited (ADL), a Titan Group holding company. The investment was a minority investment in ADL, and IFC had no board nominee to the board of directors of ADL. IFC’s investment was intended to support the Titan Group’s expansion and improvement plans in Egypt, encourage employment retention and generate new jobs in the local community, and enable the development of housing and infrastructure projects in Egypt generally. The investment covered expenditures for improvements at both the APCC plant in Alexandria, as well as the expansion in the Titan Group’s Beni Suef Cement Company (BSCC) plant south of Cairo. APCC and BSCC together comprise Titan Cement Egypt (TCE). IFC exited its indirect investment in APCC by selling its shares in ADL to TCI in November 2019.

2. The Compliance Advisor Ombudsman (CAO) complaint and investigation report focus on the APCC plant. The issues raised by the complainants with respect to APCC are broad and complex, and allege as follows: (i) the proximity of the plant to the residential area of Wadi Al-Qamar; (ii) the effect that pollution from APCC’s cement factory has on community health and safety; (iii) the absence of a required environmental license related to plant rehabilitation in 2002 and the resulting non-compliance with national law; (iv) workers’ rights and working conditions, and a legacy voluntary early leave program established in 2003 prior to TCE obtaining operational control of the plant; and (v) inadequate information disclosure and community consultation.

3. Management recognizes that macro and sector headwinds can impact operations of investee companies and that social unrest can create unforeseen situations for a company and the communities surrounding it. The APCC plant faced unrest in the period surrounding the Arab Spring (2011 and 2013). In its aftermath, limited availability of foreign exchange caused delays in APCC implementing certain actions in the agreed Environmental and Social Action Plan (ESAP) and contributed to strained relations with the local community. The acute energy shortages faced by Egypt from 2012 to 2015 also led to a government-mandated change in fuel source for the cement sector as a whole and required additional unforeseen adjustments.

4. Despite these headwinds, IFC’s investment had a positive impact. The company continued to implement good international industry practice (GIIP) for the sector and completed all ESAP-required environmental improvements by 2018, achieving a material reduction of its environmental emissions to levels in line with World Bank Group (WBG) Environmental, Health and Safety (EHS) Guidelines for cement manufacturing. The company also advanced its labor practices to align with international standards both for direct and contract workers,<sup>2</sup> enhanced its

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<sup>1</sup> APCC delisted on August 12, 2020.

<sup>2</sup> “Direct workers” refer to employees of the client; “contract workers” refer to “non-employee workers,” as defined in the applicable Performance Standard 2 (the version dated April 30, 2006). The terms are used for consistency with the most commonly used terms in the CAO Investigation Report.

social responsibility program by engaging with nearby communities and published sustainability reports following international good practice.

5. In the ten years since its investment, IFC's policies and standards have continued to evolve. The lessons of this case, which are elaborated below, are valuable both for IFC's real sector business and for its approach in fragile, conflict-impacted and violent contexts. IFC's thorough assessment and oversight of the client's communication and stakeholder engagement is crucial to promoting an understanding of both the local context and legacy issues. It also enables an informed review by IFC of the client's consultation with the local communities throughout the period of IFC's investment regarding the implementation of environmental and social improvements, and an understanding of the progress made by clients in achieving the objectives of the ESAP and complying with IFC's Performance Standards.

6. Management recognizes the important contribution of the complainants in bringing these issues to light and of CAO for its engagement with the case. This Management Response addresses the observations made in the CAO report. In keeping with the CAO compliance process, the Management Response focuses on IFC's compliance with its policies and procedures that were applicable during its investment in ADL and, indirectly, in APCC. It also describes improvements in IFC's policies and procedures since this investment, as well as lessons learned and forward-looking actions.

## **CHALLENGES AND RESULTS OF TITAN GROUP'S ACQUISITION OF APCC AND IFC INVESTMENT**

7. APCC was established in 1948, nationalized by the Government of Egypt in 1961 and privatized in 1999. In 2001, it was acquired by Lafarge Cement, the largest cement producer in the world with a presence in 90 countries,<sup>3</sup> which rehabilitated the plant, installing a modern dry process line and replacing four highly polluting wet kilns.

8. The Titan Group is an international vertically integrated cement and building materials conglomerate with operations in eight emerging markets. Its commitment to sustainability and environmental and social responsibility is well recognized, evidenced by its management certifications, and independently audited sustainability reporting. IFC partnered with the Titan Group through three investments in Albania, Egypt and North Macedonia, Serbia and Kosovo between 2008 and 2012.

9. The Titan Group formed a 50:50 joint venture (LTEIL) with Lafarge in 1999, which acquired APCC in 2002. Under the JV arrangements Lafarge remained responsible for APCC plant operations, and from 2002 to 2003 Lafarge carried out voluntary early leave plans (VELP) at APCC to optimize workforce in line with the ongoing process improvements. The Titan Group acquired Lafarge's share in LTEIL in April 2008, becoming the operator and majority owner of APCC.

10. Through its direct investment in ADL, IFC indirectly invested in APCC in November 2010. The purpose of IFC's investment as it related to the APCC plant was to improve its environmental

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<sup>3</sup> Lafarge S.A., a French industrial company specializing in cement and construction aggregates, merged with Holcim, a Swiss cement company, in July 2015 and became LafargeHolcim.

performance by upgrading pollution abatement and improving its pyro-processing reliability and energy efficiency, by completing various debottlenecking projects. This was reflected in the ESAP included in the IFC/ADL investment agreement. It included a commitment by APCC to upgrade particulate matter and nitrogen oxides stack emissions control and to control fugitive dust sources, thereby significantly reducing the company's stack and fugitive dust emissions.

11. The period of IFC's investment corresponded to a period of profound political, economic and social upheaval in Egypt, with events that affected every aspect of Egyptian society and impacted private companies across the country. Many companies faced an increase in strikes by employees and contractors. A total of 40 privatization reversal cases were filed during this period, with cement companies among those targeted.

12. APCC also experienced unrest in the period surrounding the Arab Spring, which disrupted operations and affected financial performance. Two violent protests took place at the APCC plant in 2011 and 2013 related to concerns about environmental and labor issues at the site. Legal actions were brought against former government officials to reverse the APCC privatization and to terminate its operating license on the grounds that the plant was in violation of certain environmental and related regulations. The privatization cases are pending a Supreme Constitutional Court decision on the constitutionality of a law enacted in 2014 that prevents parties other than the contracting parties from challenging privatizations, but meanwhile the Egyptian courts ruled in 2018 in favor of APCC on the legal challenge raised during that period relating to its operating license.

13. Gas and power shortages and gas price hikes between 2012 and 2015 caused significant cost increases and decreased cement production. The Ministry of Industry recommended that cement companies switch to different fuel sources to alleviate pressures on energy demand in the country. As a result, TCE requested permits to transition from natural gas to solid fuels (coal, pet coke and alternative waste streams) to keep its plants running. The ESAP was updated twice (in 2012 and 2015) such that the fuel transition was implemented in a safe manner, complied with emission limits and minimized fugitive dust from solid fuel storage, in line with regulatory requirements and GIIP.

14. In 2017, the Egyptian cement market experienced further volatility due to (i) low cement prices, which did not cover the full impact of cost increases resulting from a 45% devaluation of the Egyptian pound (EGP) and high inflation; (ii) new cement production capacity coming onstream faster than previously expected; and (iii) an increase in the cost of local borrowing to about 20 percent.

15. Despite these difficult economic and financial conditions and contextual constraints, both APCC and BSCC were able to sustain their operations and continue investing in improvements to their environmental and social (E&S) and operational performance. APCC invested over 220 million EGP (about US\$20 million) in environmental improvements for plant operations related to actions specified in the ESAP.

16. Over the period of the investment, IFC worked closely with TCE and APCC to achieve both investment objectives and monitor APCC's ESAP commitments, while meeting challenges that

emerged for the plant and its stakeholders during these challenging times. Key initiatives of TCE discussed with IFC, beyond the ESAP commitments, included:

- (i) Strengthening relations and engagement with the community of Wadi Al-Qamar. Since 2014, APCC has partnered with a local nongovernmental organization (NGO), Sustainability Center for Development (SCD), to engage with the community on its needs and restructure its Corporate Social Responsibility (CSR) program to reflect priorities identified by the community. APCC appointed dedicated and qualified resources to manage the program.
- (ii) Reviewing and updating APCC's labor policies in accordance with IFC's Performance Standards and extending these policies to the contractor workforce.
- (iii) Improving APCC's information disclosure practices including, starting in 2014, publication of Sustainability Reports, as well as quarterly disclosure of stack emissions and water consumption data on TCE's website since 2016.

17. In addition, TCE participated in an IFC advisory project for the Egyptian cement sector as a whole that analyzed alternative fuels options to reduce carbon emissions.

18. In 2019, IFC concluded its cooperation with Titan Group when it exited all three investments that it had made since 2008. A timeline of the project is summarized on Figure 1.

## **MANAGEMENT RESPONSE TO KEY OBSERVATIONS OF CAO**

19. At the outset, Management notes that IFC's clients have primary responsibility for compliance with the Performance Standards. IFC's role is to review and monitor the client's performance against the Performance Standards and action plans, including the ESAP, as set out under the policies and practices applicable at the time of the investment.

20. Portfolio analyses of IFC investments have consistently demonstrated that the single most important factor in success (financial, development impact and ESG performance) is client commitment. Invariably projects do not follow the precise trajectory envisaged at appraisal: macro and micro economic, social and political factors change and IFC's clients must adapt to the altered circumstances in which the company now operates.

21. Owing to the unprecedented political, social and economic events that unfolded in the decade following the investment, the company confronted challenges that could not have been anticipated. Management agrees that, in line with accepted practice at the time, IFC's appraisal did not sufficiently address contextual, location and cumulative impact risks or sufficiently review the engagement with neighboring communities. As a result, certain issues were not fully recognized initially; however, when community concerns emerged in the aftermath of the Arab Spring, the company worked with IFC to address these factors over the period of IFC's investment.

22. Over the period of the investment, IFC worked closely with APCC to achieve the purpose of IFC's investment and the commitments of the ESAP, while meeting challenges that emerged for APCC plant and its stakeholders during this time. At the time of IFC's divestment from its Titan

Group investments, the company was in good standing and the investment's E&S performance was deemed satisfactory, based on the completion of the actions required in the ESAP, as agreed in 2010 and updated in 2012 and 2015.

### ***Environmental***

23. IFC's investment helped significantly reduce the company's stack and fugitive dust emissions and did not finance any increase in APCC's plant capacity. Owing to the economic upheaval that resulted from the Arab Spring, completion by APCC of some of the ESAP conditions (nitrogen oxides (NOx) abatement and fugitive dust control) and consequent environmental improvements were delayed by 6 to 24 months.

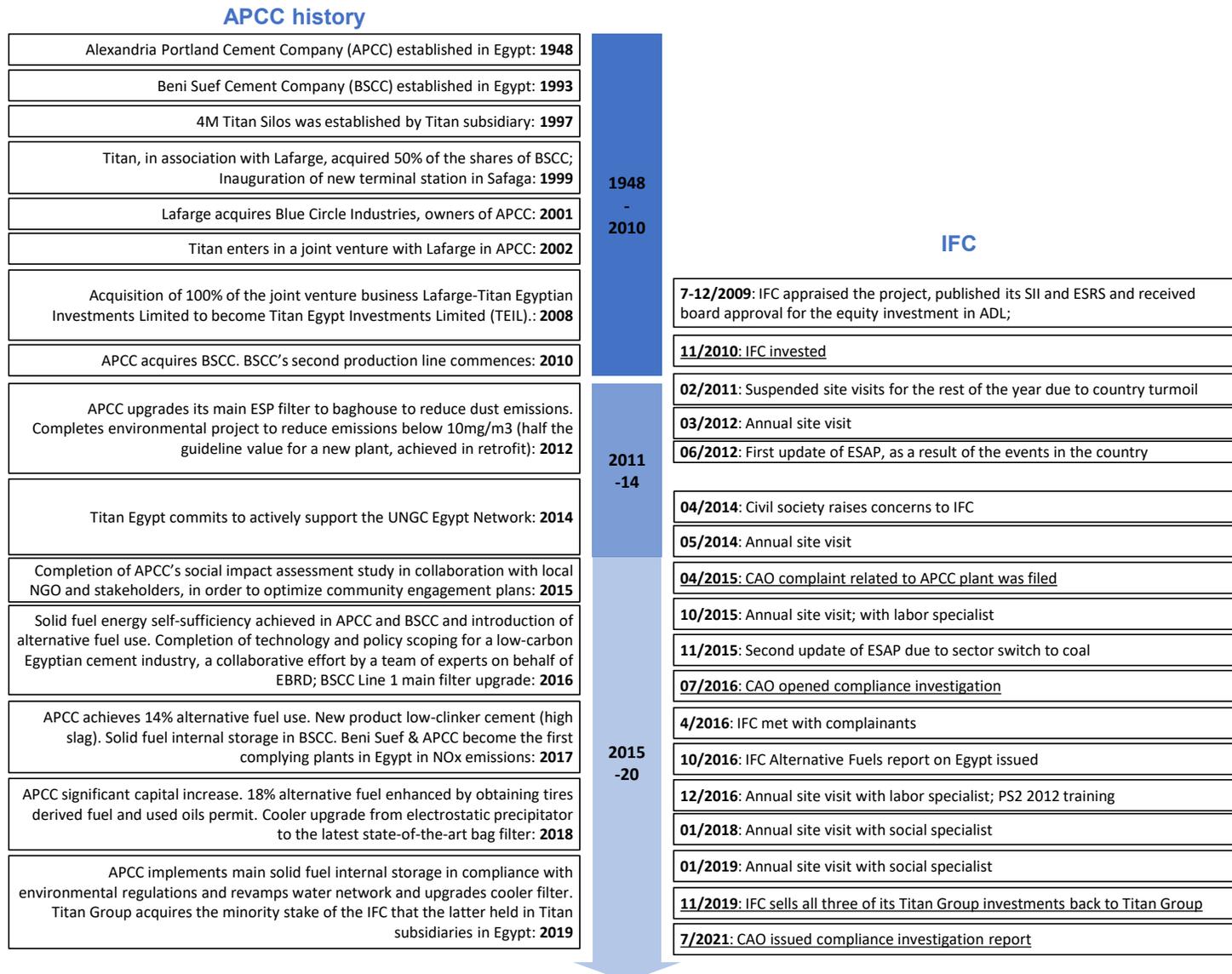
24. However, Management holds that there were no adverse impacts attributable to these delays. From the time IFC invested, there were no increases in the point source emission levels. Particulate matter emission controls were implemented as per plan and emission levels consistently decreased after 2012. Fugitive dust control measures were progressively implemented, and no additional fugitive sources were added during the time of the investment. Ultimately the implementation of the ESAP as agreed in 2010 and updated in 2012 and 2015, in addition to the other environmental improvements completed during the life of investment, mitigated the exposure risks to pollution and potential adverse impacts due to plant operations.

25. Management holds that IFC adequately supervised the APCC plant's point source emission performance and implementation of fugitive dust controls and worked with APCC to reduce point stack emissions to meet WBG guideline values and fugitive dust emissions. At the time of IFC's exit, stack emissions of particulate matter, NOx and SO<sub>2</sub> were in compliance with national standards and within the WBG guideline performance levels. All agreed actions from the updated 2012 and 2015 ESAPs to improve fugitive dust control were also completed.

26. At appraisal, IFC concluded that, as the project did not increase APCC's footprint and production capacity, and as the use of IFC's proceeds included several environmental enhancements, the project would result in a net improvement in ambient air quality and noise levels, and that there were no cumulative impacts expected from further planned development of the project or other project-related developments that were reasonably foreseeable at that time. Management agrees that the appraisal did not fully assess risks associated with vibration/noise emissions, as elements of the process improvements and debottlenecking for which IFC's investment in APCC was targeted (for example, cladding and covering the conveyor and relocating the storage area) were expected to result in a decrease in noise and vibrations levels. During supervision, however, IFC worked with APCC to address concerns raised by the community on noise. Management acknowledges that actions related to vibration/noise emissions were progressed but not fully completed by APCC at the time of IFC's exit.

27. Management agrees that the archiving of information for the project did not include all documents at pre-investment review, which made it more difficult to assess the thoroughness of IFC's review.

**FIGURE 1. PROJECT TIMELINE**



## ***Community Engagement***

28. At the time of IFC's investment, IFC had a general practice of assigning E&S category B to brownfield projects like this one with no land take, no facility expansion and no new emission sources. In accordance with this practice, IFC categorized this project as Category B. As a result, it did not undertake Broad Community Support (BCS), in accordance with its practices. In hindsight, Management agrees that given potentially significant air pollutant emissions of the existing facility, its proximity to the local community of Wadi Al-Qamar and cumulative impact risks, this could have been an E&S category A project and IFC could have evaluated the project's BCS.

29. Due to the limited interaction with communities at appraisal, the existence of tensions and grievances in the community was possibly not sufficiently identified. Community concerns later emerged in the aftermath of the Arab Spring events and resulted in two violent incidents and protests at the plant in December 2011 and February 2013.

30. Following these events, IFC provided guidance to TCE and APCC to implement improvements in all these areas. The company engaged a local NGO to conduct multiple community outreach activities, revised its approach to social responsibility to focus more on community priorities, and regularly disclosed air emissions and other environmental data to all stakeholders.

31. At the time of IFC's exit, while considerable progress was made and relations with the community since 2016 have been largely positive, company policies and procedures related to community engagement and grievance still were not fully aligned with IFC requirements.

## ***Labor and Working Conditions***

32. Management considers that labor practices at APCC were in material compliance with the 2006 Performance Standard 2 (PS2) and good international industry practice and remained compliant at the time of IFC's exit in 2019. This conclusion was substantively confirmed by an independent labor consultant engaged by IFC between 2015 and 2017 to review the company's human resources and OHS policies, including policies for managing contract workers.

33. Although IFC's appraisal assessed key PS2 issues for both direct employees and contract workers, IFC's pre-investment review summary could have differentiated more fully between policies and practices in place for each of these employment categories. Through its supervision IFC monitored whether the company used "commercially reasonable efforts to apply requirements of PS2 with exception of paragraphs 6, 12, and 18" (PS2, paragraph 17) for non-employee workers. At no instance during the lifetime of the project did IFC conclude that PS2 requirements, specifically workers' right to organize, did not apply to contractors. Moreover, Titan Group's Code of Conduct, which was published in 2012, states the Group's commitment to human rights (as defined in the Universal Declaration of Human Rights and the International Labour Organization's conventions on labor rights, including freedom of association). IFC directly engaged with both direct and contract workers, assisted APCC to implement and extend PS2 requirements to contractors by providing trainings and external consultant support, reviewing and updating contractual clauses with contractors and implementing a workers' grievance mechanism.

34. The legacy retrenchment that occurred in 2003 preceded the Titan Group's operational control of APCC (from 2008) and IFC's investment (in 2010). IFC's appraisal related to assessment of contextual risks and legacy issues was in line with accepted practice at the time. As IFC's practice has evolved, currently it is more deliberate in considering reputational risks associated with legacy retrenchment. Learning from this experience, IFC worked closely with TCE and APCC during supervision to ensure that APCC complied with PS2 requirements as part of the implementation of the VELP in 2016–17.

### ***IFC's Exit from the Project***

35. The CAO has noted that IFC had an ongoing financial exposure to the business activities of the Titan Group for the remaining instalments of the share sale price outside the framework of the Performance Standards and expressed its concern that such exposure may have been inconsistent with the intent of the Sustainability Policy (paras 2 and 7). Management does not share the view of the CAO because Management is of the view that the Sustainability Policy provides that the Performance Standards apply where there is both (i) a *financing* and (ii) the financing applies to a *client's business activities*, which is not the case with the deferred purchase price payment (the final payment of which was received by IFC in February 2021).

### **SYSTEMIC ACTIONS IN RESPONSE TO ISSUES RAISED**

36. IFC has learned important lessons from its investment in APCC, and IFC is committed to continuing to review and amend, where appropriate, its practices and procedures to improve implementation of the Performance Standards by real sector clients going forward.

37. Management acknowledges that the project would have benefited from a social specialist as part of the IFC team both at appraisal and during supervision, especially during the critical events of 2011–2013. Based on its own internal project reviews and feedback from CAO, IFC has improved this practice across all projects over the past decade. An external labor consultant was hired to support IFC's project team between 2015 and 2017, and a social specialist based in the region was assigned to the project from January 2018 onward.

38. IFC developed guidance for E&S specialists and tools for screening contextual risks affecting projects during appraisal and supervision as part of systemic improvements undertaken from 2017. These tools have strengthened IFC's review of and response to contextual elements that may affect projects' E&S performance.

39. Building on experience from projects over time, IFC has developed guidance available to specialists and clients undertaking the review of project security arrangements with respect to PS4. IFC's Good Practice Handbook on Use of Security Forces was published in 2017 and a number of relevant trainings have been delivered to IFC E&S specialists and externally since then.

40. Experience from the project suggests that legacy issues, such as prior retrenchment, represent a reputational risk that requires assessment as part of the pre-investment review. Since 2010 practice has evolved to ensure adequate review, including the revision of PS2 in 2012, improved contextual risk and reputational risk screening, enhancement of project teams with more

consistent assignment of social specialists, availability of external labor experts on retainer contracts, and training of specialists, based on *Measure & Improve Your Labor Standards Performance: Performance Standard 2 Handbook for Labor and Working Conditions* and experiences gained through the implementation of PS2 (2012).

## **MANAGEMENT ACTION PLAN IN RESPONSE TO CAO REPORT**

41. IFC have discussed with the company specific actions that could be undertaken by either IFC, the company or both parties to continue to address the complainants' concerns.

42. The company has indicated that it is committed to maintaining the positive relations it has established with its stakeholders, but it will not be able to substantively respond to the proposed actions until the CAO report and the IFC management response are published, and it has had the opportunity to review both documents. As a result, the proposed Action Plan presented in Section 4.2 of IFC Management Response is to be confirmed with APCC, and APCC reserves the right to re-assess it, when the CAO Investigation Report and IFC Management Response are issued.

43. IFC will submit annual progress reports to the Board to provide an update on progress made against its commitments per the Action Plan, which CAO will take into consideration in their monitoring.

## **CONCLUDING REMARKS**

44. IFC's investment helped APCC improve its environmental performance and its stakeholder and worker engagement, leading to largely positive outcomes on each of the key performance dimensions that IFC tracks: financial, development impact, and ESG.

45. Under Titan Group's management, and with IFC's support, APCC was able not only to stay in business under a difficult economic environment, but also to continue investing in improvements to its sustainability performance.

## 1. INTRODUCTION

1. On April 9, 2015, a complaint was filed with the Office of the Compliance Advisor Ombudsman (CAO) regarding the Alexandria Portland Cement Company (APCC) on behalf of former employees of APCC and a group of community members from Wadi Al-Qamar, who live in close proximity to the APCC plant. The complaint was filed anonymously, with support from the Egyptian Initiative for Personal Rights, a local non-governmental organization (NGO), and three other local NGOs.<sup>1</sup>

2. The complainants raised concerns regarding the following issues: the proximity of the plant to the Wadi Al-Qamar residential area; the effect pollution from APCC's cement factory has on community health and safety; compliance with national law; workers' rights and working conditions; and lack of information disclosure and community consultation. The complainants alleged that operation of the plant resulted in pollution that affected the health of workers and residents. They further alleged that the cement plant's use of coal as fuel increased pollution and that plant operations caused noise pollution and cracks in nearby buildings. The complainants also alleged that the plant did not hold the requisite environmental license to operate and, accordingly, did not comply with national law.

3. Regarding workers' rights, the complainants stated that APCC violated both Performance Standard 2 (PS2: Labor and Working Conditions) and Egyptian labor law. In particular, the complainants alleged that APCC fired permanent workers and hired them as temporary contract workers. According to the complainants, some temporary workers had been working at the company for 12 years but did not have the same benefits as direct employees, such as collective bargaining, salaries, and profit sharing. According to the complainants, the company had denied benefits to former employees who had taken early retirement since 2003 and had violated workers' rights to peaceful sit-ins by calling the police to forcefully disperse strikes and assemblies.

4. Regarding disclosure of information, although Egyptian law requires an Environmental Impact Assessment (EIA) to be developed for the expansion or renovation of existing facilities, complainants claimed that no project EIA was disclosed for public consultation. The complainants further stated that local residents had engaged in peaceful protests against the project due to air and noise pollution.

5. During the CAO assessment, some of the complainants expressed interest in a dialogue with APCC, while others expressed reservations about entering a dispute resolution process. APCC expressed concern about the legitimacy of anonymous complainants as community representatives. Based on the CAO assessment report published in April 2016, APCC denied all issues raised and expressed its ongoing interest in ongoing dialogue with APCC's stakeholders, stating that it had already developed a specific action plan to further promote and expand stakeholder engagement.

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<sup>1</sup> Egyptian Center for Economic and Social Rights, Egyptian Center for Civil and Legislative Reform, and Association for Health and Environmental Development.

6. As both APCC and some complainants declined the option of a CAO-facilitated dispute resolution process, the complaint was transferred to CAO's compliance function for appraisal in April 2016 and subsequently for investigation, in accordance with CAO procedures.

7. CAO published its Compliance Appraisal: Summary of Results report on July 18, 2016 and published the Terms of Reference for the CAO compliance investigation on September 2, 2016. In January 2017, a CAO compliance team was in Egypt to conduct informational interviews with the relevant local stakeholders and visit APCC. IFC received the CAO Compliance Investigation report on July 22, 2021.

8. This IFC Management Response is organized in five sections. Section 1 is this introduction. Section 2 provides background on the project, including IFC's indirect investment in APCC, and the events that occurred in the country, sector and company during the IFC investment period. Section 3 presents Management's remarks on CAO's compliance observations and Section 4 describes lessons learned and actions in response to the CAO report. Section 5 provides the conclusion.

## **2. PROJECT BACKGROUND**

9. IFC's relationship with the Titan Group started in 2008 when IFC financed the group's greenfield cement plant in Albania (Antea Cement #25886, 27958 and 32001) alongside the European Bank for Reconstruction and Development. In November 2010, IFC invested in the group's expansion and improvement project in Egypt (Titan Egypt #27022 and 30274). In 2012, IFC invested in the group's operations in Kosovo, North Macedonia and Serbia (Titan Danube #31128), and this was the last financing IFC provided to Titan Group to date.

10. On November 22, 2010, IFC invested €80 million in ADL, a Titan Group holding company for its Egyptian operations, including both APCC and BSCC (together Titan Cement Egypt or TCE), in exchange for a 15.2 percent stake in ADL with no nominee to the board of directors of ADL. IFC's investment was mainly targeted to expand BSCC's cement capacity and to improve the technical efficiency and environmental performance of APCC. The project's development impact included expanding the supply of cement in Beni Suef, a frontier region in Egypt, in response to growing demand for large infrastructure and low-income housing projects.

### **2.1 COUNTRY AND INDUSTRY CONTEXT**

11. The period of IFC's investment was one of profound political, economic and social upheaval in Egypt, and included events that affected every aspect of Egyptian society. These events impacted private companies across the country, including APCC and the outcomes of IFC's investment in the company.

#### **2.1.1 Socio-Political Context**

##### **A. Period before 2010**

12. Egypt's macro-economic stability was widely recognized toward the end of the 1990s, following the government's implementation of a stabilization and structural adjustment program

at the start of that decade.<sup>2</sup> At the end of the 1990s, inflationary pressures in the Egyptian economy had been significantly reduced, with the inflation rate down from about 10 percent in 1995 to 3.8 percent in 1999 and 2000.

13. As part of this effort, Egypt's privatization program had earmarked 314 state-owned companies for privatization in 1991. 156 state-owned companies were fully or partially privatized by late 2000. By 2006, the privatization program had accelerated, with an additional 74 companies being privatized.<sup>3</sup>

14. Starting in mid-2004, implementation of reforms in key areas (including taxation and the re-launch of privatizations described above) sparked a recovery in business confidence, which helped strengthen investment and translated into a GDP growth rate of nearly 7 percent. However, inflation and unemployment started to increase again during these years of growth, rising to 18 percent and 8.4 percent respectively at the end of 2008.

15. From the 1990s through 2010, Egypt experienced a high degree of political stability, with presidential elections expected in 2011. Economic growth had been accelerating since the start of 2009, following a sharp drop in real GDP to 5.2 percent at the end of 2008, which was a result of the global financial crisis. Real GDP was forecast to continue to grow at an average of 5.5 percent for the next five years.<sup>4</sup>

## **B. 2011–2013**

16. In January and February 2011, protests in Tunisia and Egypt unseated the governments of both countries. The first demonstrations took place in central Tunisia in December 2010. Protests broke out in Egypt on January 25, 2011. After more than two weeks of demonstrations and clashes, then-President Hosni Mubarak left office on February 11, ceding power to a Supreme Council of the Armed Forces. Egypt entered a period of heightened political instability.

17. The political instability negatively impacted tourism revenue, foreign investment and GDP growth throughout 2011. Impacts on the private sector were felt from February 2011, with international companies evacuating staff and companies in all industries facing unrest at their plants and disruption to their operations. Beginning in September 2011, several legal actions were filed to reverse privatizations that occurred under the Mubarak regime. Forty such privatization reversal cases were filed, including some in the cement sector.

18. In February 2012, violent protests resumed across Egypt. Presidential elections were held in June and the Muslim Brotherhood's Mohammed Morsi was elected president. Civil unrest erupted again in November.

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<sup>2</sup> OECD report January 2001.

<sup>3</sup> OECD/AFDB African Economic Outlook Report 2017

<sup>4</sup> EUI October 2010; January 2011.

19. The Central Bank's sale of foreign reserves to counter the lack of capital inflows contributed to a further decline in net international reserves equivalent to approximately three months' import cover.

20. In July 2013, the Egyptian military removed President Morsi and appointed an interim President, Adly Mansour, the third head of state in two and a half years. The new government imposed a state of emergency from August to November 2013. Private sector confidence in Egypt continued to erode, with diminishing stock market volumes, persistent labor strikes and the judicial reversal of several past privatizations.

21. Real GDP grew by just 2.2 percent in 2013 and foreign reserves continued to fall to a new low at the end of January 2013. In response, the government instituted capital controls and prioritized foreign reserves for importing food, healthcare needs and pharmaceuticals. The availability of hard currency for companies in non-exporting sectors, including cement, was limited. Unemployment reached 13.4 percent.

### **C. 2014–2019**

22. In May 2014, Abdel Fattah el-Sisi was elected President. Although economic growth remained weak and unemployment remained at about 13 percent, Moody's changed its outlook for Egypt from negative to stable in late 2014.

23. After four years of slow economic growth, Egypt's real GDP growth rate doubled to over 4 percent in 2015 and 2016. Foreign currency shortages eased following a liberalization of the exchange rate by late 2016 and an increase in interest rates of 300 bps by the Egyptian Central Bank. These policies helped eliminate the parallel market and kick-started an improvement in Egypt's external accounts. However, these actions also triggered a devaluation of the EGP by 45 percent. Inflation was above 30 percent for most of 2017, decreasing households' purchasing power, reducing the positive spillovers of economic growth and taking a toll on social and economic conditions.

24. Economic and political stability continued to improve in 2018 and 2019, with real GDP growing by over 5 percent, driven by an increase in net exports, a decrease in oil imports and expanded domestic natural gas production. The stronger economy was reflected in a rise in foreign currency reserves, which totaled US\$43 billion in December 2018. President Sisi was reelected to a second four-year term in March 2018.

### **2.1.2 Cement Sector Context**

#### **A. Period before 2010**

25. Against the background of the various economic reforms in the late 1990s and early 2000s, the industrial sector experienced significant growth due to rehabilitation and modernization efforts in many industries but especially in manufacturing.

26. Following difficult years in the early 2000s as a result of increasing capacity and stagnating demand following the September 11 attacks in the United States, cement consumption surged by

19 percent in 2005 and the financial performance of cement producers started to recover as a result of both increased volumes and higher prices.

27. At the time of IFC's appraisal in 2009, Egypt was the largest market for cement in the Middle East and North Africa region, with an estimated consumption of 38 million tonnes in 2008. Demand for cement grew by 25 percent in 2009, and Egypt became a net importer of cement for the first time in four years.

## **B. 2011–2013**

28. Following the events of the Arab Spring, however, multiple cement companies faced strikes by employees and contractors, disrupting operations and affecting financial performance. Several cement companies were among the 40 firms targeted with legal actions seeking to overturn the privatizations of the late 1990s and early 2000s.

29. In 2012, the cement sector experienced energy shortages and the commissioning of new production capacity. By 2013, natural gas prices had more than doubled as energy subsidies to the sector were removed. The Egyptian government diverted natural gas from heavy industrial users to power production, effectively leaving most of the 25 operating cement companies with only a fraction of the gas needed to continue their operations. Large volumes of clinker had to be imported at high cost. Resulting cement cost increases and reduced demand adversely affected operating margins. Due to the steep decline in the country's foreign reserves, hard currency availability was limited for companies in non-exporting sectors like cement.

30. In April 2013, after a two-year period of natural gas shortages, the government announced a 50 percent reduction in the supply of natural gas to cement factories. The cement sector, including APCC, began discussions with the government about transitioning to other fuels.<sup>5</sup> By the end of 2013, domestic cement production had fallen by 50 percent. With no end to fuel shortages in sight, cement companies began burning coal and petcoke to meet their energy demand, a fuel switch encouraged by the Ministry of Industry to alleviate the pressure on non-industrial energy needs.

## **C. 2014–2019**

31. In April 2014, the cabinet approved the use of coal and other solid fuels for cement plants, subject to compliance with "certain environmental regulations" that were not specified at the time. That year cement companies had to import 8.9 million tonnes of clinker to sustain their cement production. Most cement companies applied for a license to burn coal and invested in equipment to enable a switch to coal. It is in this context that TCE took the decision to transition to solid fuels (coal, petcoke, sewage sludge, and other sorted wastes) to keep the plants running.

32. Recognizing both the energy crisis and the importance of mitigating greenhouse gas (GHG) emissions from the Egyptian cement sector, IFC, with support from the Government of Italy, Korea Green Growth Partnership, DANIDA, and Earth Fund Platform, commissioned an Alternative

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<sup>5</sup> On April 15, 2013 the Ministry of Petroleum stated that US\$18 billion would be invested in the next few years to build new refineries and modify existing plants in a move to increase its annual fuel output.

Fuels and Raw Materials Study, which assessed the potential to increase use of alternative waste fuels and raw materials to reduce GHG emissions. The report was published in 2016.

33. By 2017, the cement market in Egypt<sup>6</sup> was negatively impacted by the foregoing developments and shrank by almost 5 percent. At that time there were 24 cement plants in Egypt with an aggregate cement capacity of 68.5 million tonnes per annum (mtpa). In 2018, participation of the Egyptian armed forces in the Egyptian cement sector increased significantly after a company owned by the armed forces commissioned a second plant with a massive 12 mtpa cement capacity in Beni Suef in addition to its existing capacity, reaching 24 percent of the country's total cement capacity and becoming by far the largest player in a market of 81.2 mtpa cement capacity. That year, 2018, cement consumption dropped by a further 5.4 percent to 51 million tonnes.

34. The extremely adverse conditions faced by local and foreign investors in the Egyptian cement sector between 2011 and 2019 took a long-term toll: two companies shut down their plants indefinitely and a third is entering bankruptcy proceedings, with the expectation that more are likely to follow. Valuations have plummeted and 30 million tonnes of cement capacity are idle.<sup>7</sup> Under the Titan Group's management, and with IFC's support through exit in 2019, APCC was able not only to stay in business under a difficult economic environment but to continue investing in improvements to its sustainability performance.

## **2.2 APCC PERFORMANCE AND IFC INVESTMENT**

### **2.2.1 Titan Group**

35. The Titan Group was founded in 1902 in Greece. It started its global expansion in the 1990s and became an international cement and building materials producer through a network of 14 cement plants in 10 countries, including eight in emerging markets, as well as aggregates quarries, ready-mix plants, terminals and other production and distribution facilities. TCI is listed on Euronext Brussels, Euronext Paris and the Athens Exchange.

36. The Titan Group was among the first 500 signatories of the United Nations Global Compact (UNGC) and is active in the local UNGC network in Egypt. Titan has been a member of the World Business Council for Sustainable Development and of its Cement Sustainability Initiative since its inception in 2002. Since 2004, Titan has also been active in global sustainability initiatives through its commitment to the European business network for corporate social responsibility (CSR Europe).

37. The Titan Group produced its first Social Report in 1983. In 2003 Titan Group adopted the Global Reporting Initiative (GRI) Guidelines and produced its first Group-wide Corporate Social Responsibility and Sustainability Report aligned with GRI Guidelines. Since 2005, Titan has followed the reporting guidelines issued by the UNGC and its report is registered on the UNGC

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<sup>6</sup> <https://cementdivision.com/cement-industry-in-egypt/facts-and-figures/>

<sup>7</sup> Ibid.

electronic platform. Beginning in 2007, the Titan Group has had its Sustainability Reports independently assessed by internationally recognized independent auditors/verification bodies.

38. TCE's environmental management system is ISO 14001 certified and its health and safety management system is OHSAS 18001 certified. The company also has a quality management system certification as per ISO 9001. APCC's operations are certified to ISO 14001, OHSAS 18001 and, since 2011, ISO 9001. TCE has published its CSR & Sustainability Reports (<http://titacementegypt.com/csr-in-action/>) annually for the years 2014 to date.

39. In 2012, TCE introduced the Titan Group Code of Conduct, which was distributed in English and Arabic to all employees and contractors and is publicly available on the Titan Group's website.<sup>8</sup> Dissemination activities began in September 2012 and awareness workshops in 2013. The Code of Conduct highlights the company's commitment to human rights as defined in the Universal Declaration of Human Rights and the International Labour Organization's conventions on labor, including workers' right to organize.

## **2.2.2 Before 2011: Egyptian Market Entry and Acquisition of APCC**

40. APCC was established in 1948 and nationalized by the Government of Egypt in 1961. APCC is located in the industrial zone of Al-Max, in close proximity to the residential area of Wadi Al-Qamar. There are several industrial facilities in the Al-Max area and in the proximity of the APCC plant, including petrochemicals, steel and other manufacturing plants.

41. In 1999, under Egypt's Private Ownership Expansion Program, APCC's shares were sold to Blue Circle Industries, which was acquired by the French cement company Lafarge in 2001. Lafarge completed a rehabilitation of the plant in 2002, replacing four obsolete and highly polluting wet kilns with a modern dry process line (Kiln 5) installed in the southeast corner of the plant, bordering the settlement of Wadi Al-Qamar. The proposed location was reviewed by the Egyptian authorities as part of the EIA for Kiln 5 (2002). In 2002 and 2003, APCC carried out a VELP to optimize workforce in line with these process improvements.

42. The Titan Group entered Egypt in 1997 by establishing a cement trading and distribution business. It formed a 50:50 joint venture (JV) with Lafarge (Lafarge Titan Egyptian Investments Limited or LTEIL) in 1999. LTEIL acquired APCC in 2002. Under the JV arrangements Lafarge remained responsible for APCC plant operations. In April 2008, Lafarge sold its 50 percent JV stake to the Titan Group, which became the majority owner of APCC.

43. As detailed above, IFC made a minority equity investment in ADL in November 2010. The purpose of IFC's investment as it related to the APCC plant was to improve its environmental performance by upgrading pollution abatement and improving its pyro-processing reliability and energy efficiency by completing various debottlenecking projects.

44. During IFC's July–September 2009 appraisal, plant equipment was assessed to be of adequate quality and design, operating at good reliability and utilization levels. Thermal and electricity consumption were averaging 3500MJ/tonne of clinker and 120kWh/tonne cement,

<sup>8</sup> [https://www.titan.gr/Uploads/Code\\_of\\_Conduct\\_%CE%95%CE%9D.pdf](https://www.titan.gr/Uploads/Code_of_Conduct_%CE%95%CE%9D.pdf)

respectively, which were above the relevant IFC benchmarks, due to very wet raw materials with a high level of chlorine. The plant was using natural gas as its main fuel, which resulted in low specific carbon emissions of 685 kg carbon dioxide (CO<sub>2</sub>)/tonne cement, below the IFC benchmark of 740kg/tonne.<sup>9</sup> However, the kiln average clinker output of ~4550tpd was below its original guarantee of 4750tpd, impacted by its raw materials drying and grinding system, which needed debottlenecking.

45. A key project for APCC, which was reviewed at appraisal, was to replace the main kiln and raw mills electrostatic precipitator (ESP) with a filter baghouse, ensuring that dust emissions would remain below 30mg/Nm<sup>3</sup>. Other measures reviewed at appraisal included the use of grinding aids to improve cement grinding efficiency and quality, shutting down the smaller inefficient cement mill, adding slag in the raw mix, and reducing the clinker/cement ratio.

46. These actions were expected to reduce specific power and fuel consumption by about 6 percent and carbon emissions by about 4 percent. Some progress toward these goals was made during 2010–2012 despite the challenges resulting from the onset of political and economic instability in the country.

47. The ESAP included in the IFC/ADL investment agreement reflected the stated use of proceeds. It included a commitment to reduce point source particulate emissions below 100mg/Nm<sup>3</sup> within 24 months (2013). In 2012, in light of IFC's site supervision and further detailed review of the project's air emissions levels and performance, emission control requirements under the ESAP were strengthened for APCC to:

- (i) Upgrade particulate matter (PM) emissions control, resulting in main stack emissions of 30mg/Nm<sup>3</sup> by 2012—aligned with WBG guidelines for new facilities, and one third of what would be needed for compliance in existing plants.
- (ii) Prepare a raw material handling plan to ensure that all raw materials are covered or coated to prevent fugitive dust (by September 2012).
- (iii) Curb the increase in NO<sub>x</sub> emissions in 2008–2011 to achieve compliance with WBG guidelines (600mg/Nm<sup>3</sup>) through process optimization and an assessment of the need to install secondary de-Nox emission control measures (plan by 2012; implementation by 2015).

### **2.2.3 2011–2013: Managing Political, Economic, and Social Unrest**

48. On December 30, 2011, a year after IFC invested, a group of armed protesters broke through the gate at the APCC plant, attacking plant security and targeting the administrative building, which was set on fire. The protesters demanded that the plant be moved from its location on the grounds that it did not meet environmental regulations. The police and army intervened.

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<sup>9</sup> The CO<sub>2</sub> emissions mentioned in this Management Response are net specific emissions per tonne of cement produced in APCC Alexandria plant. They include emissions from scope 1 (related to the calcination of limestone and the combustion of fossil fuels, excluding alternative waste fuels) and from scope 2 (related to electricity consumed from the grid).

There were no casualties. The company announced these events to the Egyptian Exchange and began legal action against the armed protesters.

49. In October 2012, an ex-APCC employee brought legal action against a number of government entities seeking annulment of the 1999 sale of APCC to Blue Circle Cement, one of 40 similar cases at the time in the Egyptian courts, including several involving cement companies. APCC was not named as a defendant in the action.

50. In addition, in 2012, a resident living near the plant filed a claim before the Administrative Court of Alexandria seeking to revoke APCC's operating license on the grounds of alleged violations of environmental and other regulations. On April 18, 2018 that court decided in favor of APCC. As no appeal has been lodged, the ruling stands.

51. During the second wave of country-wide violence, in February 2013 a group of 150 contract workers entered APCC, took employees and managers hostage, and demanded that they be hired as direct employees. Police responded immediately. The following morning some of the contract workers involved in the incident were arrested. There were no casualties.

52. In May 2013, three ex-employees of APCC filed a second court action to annul the 1999 sale of APCC to Blue Circle Cement. To date no hearing has been scheduled. No judgment is possible in any of the 40 privatization cases filed to date until the Supreme Constitutional Court decides on the constitutionality of a law (Law no. 32/2014) enacted in 2014 that prevents parties other than the contracting parties from challenging privatizations.

#### **2.2.4 2014–2019: Managing a Switch in Fuel, Strengthening Stakeholder Relations**

53. As a result of the government diversion of natural gas to power production, APCC faced gas supply shortages starting in late 2012 that became most severe in September 2014, resulting in an average production capacity loss of nearly 56 percent.

54. TCE developed an alternative (waste) fuels (AF) strategy, targeting for the Alexandria plant an AF substitution rate of 30 percent by 2021, and began investing in fuel alternatives (Dried Sewage Sludge and Refuse Derived Fuel from sorted municipal and industrial wastes) to provide 20–30 percent of its solid fuel usage over a three-year period. It invested US\$7 million in relevant facilities in 2015–2016. Following approval by the authorities, the coal/petcoke storage and grinding system was commissioned at the end of 2016 at a cost of US\$16 million.

55. During 2014 and 2015, waiting for government approvals to install its solid fuels handling, storage and grinding systems, the plant struggled with a volatile fuel mix, resulting in low clinker output and production, higher energy costs and the need to import clinker. Operating margins, which had been in a range of 33–42 percent in 2010–12 and 14–25 percent during 2013–14, plummeted to negative in 2015 and remain negative to date. The company reported net losses from 2015 through 2019 on standalone basis under Egyptian GAAP.<sup>10</sup>

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<sup>10</sup> As per results announced at Cairo Stock Exchange.

56. The solid fuels processing has increased power consumption by about 8 kWh/t cement and has had a 7 percent negative impact in kiln output and thermal efficiency. Thermal plus electricity energy costs have remained at about 60 percent of plant direct costs since 2016, which is higher than the global industry benchmark of about 35–40 percent. The switch from natural gas to coal/petcoke initially contributed to an increase in CO<sub>2</sub> emissions, which was partially mitigated by introducing a growing percentage of AF in the fuel mix, air cooled slag in the raw mix and reducing the clinker/cement ratio. The net specific CO<sub>2</sub> emissions in 2018 was 753 kg/t of cement. TCE's objective remains to reduce net specific CO<sub>2</sub> emissions to below 700 kg/t of cement by optimizing kiln operation and increasing AF from 17% in 2018 towards 30%.

57. The shift from natural gas to solid fuel and related actions were disclosed as part of the Titan Group's Annual Sustainability Report. The report also included the E&S impact assessment process undertaken, the significant investments required and the concerns among civil society related to the increase in the country's carbon footprint.

58. The Titan Group's technical center continued to provide support to the Egyptian plants to improve operational performance in the midst of multiple technical challenges caused by the forced switch to solid fuel. An Expert Management System to optimize the kiln and raw mills process was implemented in 2018 at a cost of US\$0.5 million. Moreover, despite social, economic and technical challenges, Titan met its commitment to reduce APCC's environmental impact.

59. The main E&S highlights relevant to Titan's operations in Egypt have been publicly reported as part of the Group Sustainability Reports and, since 2014, TCE's CSR and Sustainability Reports. They include relevant information on safety performance indicators, actions to abate and control air emissions, community engagement and initiatives to support Wadi Al-Qamar residents, environmental approvals and permitting, human resource management, contractor management, grievances from employees and court cases (including the case initially filed in 2015 before the El Dekheila Misdemeanor Court related to dust impacts).

### **2.2.5 IFC Exit from Investment in ADL**

60. IFC exited its investment in ADL in November 2019 by selling to TCI, as part of a broader divestment that included the sale of IFC's equity positions in all three of the Titan Group investments IFC made between 2008 and 2012. The sale was consistent with IFC's strategy of divesting from equity positions it has held for a sufficiently long period of time in order to revolve its funds and was driven by economic considerations and was not related to the CAO investigation process that started in 2016.

61. At the time of IFC's divestment in ADL, APCC was in good standing and the project's E&S performance was deemed satisfactory based on the completion of all actions required in the ESAP that was agreed at the time of investment and updated in 2012 and 2015. The exit preceded the publication of the CAO investigation report that identified potential areas of improvement. Although no longer an investor and with no continuing obligations, IFC remains committed to engage with the company in these areas, as outlined in the proposed action plan in section 4.2.

62. The CAO has noted that IFC had an ongoing financial exposure to the business activities of the Titan Group for the remaining instalments of the share sale price outside the framework of the

Performance Standards and expressed its concern that such exposure may be inconsistent with the intent of the Sustainability Policy (paras 2 and 7). Management does not share the view of the CAO because Management is of the view that the Sustainability Policy provides that the Performance Standards apply where there is both (i) a *financing* and (ii) the financing applies to a *client's business activities*, which is not the case with the deferred purchase price payment (the final payment of which was received by IFC in February 2021).

63. Nonetheless, IFC is in the process of reviewing its investment operations policies and procedures as they relate to aspects of exit, to identify opportunities for procedural enhancements in considering environmental and social impacts when IFC seeks to proactively exit investments.

## **2.2.6 Key Results of IFC Investment and Partnership with APCC**

64. IFC met the project monitoring requirements of the Sustainability Policy and monitored APCC's social and environmental performance throughout the life of the investment:

- (i) IFC's project team visited the project each year and in some occasions more than once per year, with the exception of 2011 and 2013 due to security concerns.
- (ii) The project submitted on time all the Annual Monitoring Reports on E&S performance.
- (iii) IFC consistently reviewed project performance on the basis of the company's commitments in the Action Plan, as reported by the Annual Monitoring Reports and reviewed with the company any performance improvement opportunities, as reflected in the updated ESAPs.

65. Over the period of the investment, IFC worked closely with APCC to achieve the purpose of IFC's investment and client's commitments of the ESAP, while meeting challenges that emerged for APCC and its stakeholders during this time. Key initiatives discussed with IFC, beyond the ESAP commitments, included:

- (i) Strengthening relations and engagement with the community of Wadi Al-Qamar. From 2014 to date, APCC has partnered with a local NGO (SCD) to engage with the community on its needs and restructure its CSR program to reflect priorities identified by the community. APCC appointed dedicated and qualified resources to managing the program.
- (ii) Reviewing and updating APCC's labor policies in accordance with IFC's Performance Standards and extending these policies to the contractor workforce.
- (iii) Improving APCC's information disclosure practices, including, starting in 2014, publication of Sustainability Reports, as well as quarterly disclosure of stack emissions and water consumption data on TCE's website since 2016.

66. In addition, TCE participated in an IFC advisory project for the Egyptian cement sector as a whole that analyzed alternative fuels options to reduce carbon emissions.

67. Despite the difficult economic and financial conditions and contextual constraints, APCC invested over 220 million EGP (about US\$20 million) in environmental improvements for plant operations related to IFC's specified ESAP actions. Through these investments APCC met the purpose of IFC's investment and achieved all the elements of the original ESAP as agreed in 2010 and updated in 2012 and 2015.

68. APCC further invested US\$7 million in implementing an alternative fuels program to substitute fossil fuels (17 percent substitution achieved in 2018) and reduce its carbon emissions.

69. APCC's average annual PM emissions were reduced by more than 90 percent to a level well within WBG EHS Guidelines value (from 205 mg/Nm<sup>3</sup> in 2011 to below 20 mg/Nm<sup>3</sup> since 2013), meeting the targets set in the ESAP.

70. As a result of commissioning a new control system (selective noncatalytic reduction or SNCR), emissions of NOx decreased after 2016 from between 613 and 749 mg NOx/Nm<sup>3</sup> to between 331 and 568 mg NOx/Nm<sup>3</sup> in 2017–2019, consistently below the national standard and applicable WBG EHS Guidelines value of 600 mg/Nm<sup>3</sup>. The SNCR, combined with the process optimization carried out earlier in 2013, achieved the target set in the ESAP by 2016, although it was delayed six months with respect to the timeline presented in the assessment and plans for the implementation of the secondary de-NOx emission control measures.

71. APCC's Continuous Emission Monitoring System (CEMS) was installed in 2011 at the beginning of IFC's investment to meet WBG EHS Guidelines. CEMS is considered good international industry practice that enables accurate review and management of air emission performance. In 2017, in keeping with good international practice, APCC further modernized its CEMS with the installation of new gas analyzers for PM, NOx, sulfur dioxide (SO<sub>2</sub>), hydrochloric acid (HCl) and total organic carbon (TOC).

72. In meeting the ESAP, APCC developed and implemented the raw material handling plan to limit fugitive dust emissions, including raw material storage coverage and improved housekeeping measures. By the end of 2017, all the main storage coverage projects were completed, for clay, iron ore, gypsum and clinker. In total APCC implemented five major (and over 40 in total) bag filter improvements, seven major covered storage projects and an additional ten fugitive dust control projects, including cladding and dust suppression systems, and purchased a new road sweeper and a dust vacuum truck.

73. Portfolio analyses of IFC investments have consistently demonstrated that the single most important factor in success (financial, development impact and ESG performance) is client commitment. Invariably projects do not follow the precise trajectory envisaged at appraisal: macro- and microeconomic, social and political factors constantly change, and IFC's clients must adapt to the altered circumstances in which the company now operates. In the case of this investment, the macroeconomic, political and social factors in Egypt experienced change of unprecedented dimensions. With support from IFC, the company addressed these factors over the period of IFC's investment, leading to largely positive outcomes on each of the key performance dimensions that IFC tracks: financial, development impact and ESG.

### 3. MANAGEMENT RESPONSE TO CAO OBSERVATIONS

#### 3.1 SUMMARY OF CAO OBSERVATIONS ON ENVIRONMENTAL ISSUES<sup>11</sup>

- **E&S Review:** IFC’s pre-investment review of project environmental impacts was not commensurate to risk in light of the plant’s location in a mixed industrial-residential area with communities in close proximity (Sustainability Policy, para. 13). IFC did not assure itself that the client’s E&S assessment considered potential cumulative impacts on air quality, human health, and noise from existing projects and conditions, including numerous pollution sources in the project area (PS1, para. 5). Available documentation did not allow CAO to confirm that IFC conducted an adequate review of the client’s E&S assessment, including ensuring that the assessment presented an “adequate, accurate and objective evaluation” of the E&S issues based on recent information (PS1, paras. 7, 8). Further, IFC did not ensure that the client’s ESAP reflected outcomes of consultation with affected communities, that it described actions necessary to reach air emissions targets, or that the client would report externally on implementation (PS1, para. 16).
- **Plant Licensing:** Although IFC was aware of complainant concerns regarding the client’s licensing status and related media coverage, IFC’s supervision did not provide assurance that the client was complying with national licensing requirements (PS, para. 3; PS1, para. 4). Instead, IFC relied on client assurances that permit and license requirements were being met.
- **Point Source Emissions:** IFC’s E&S review of the client’s contribution to local air pollution was not commensurate to risk in light of APCC’s performance and location. Although an ambient air quality assessment was required to determine whether airshed was “degraded” and to define appropriate mitigation measures (WBG EHS Guidelines), IFC did not ensure its client carried out such an assessment. During supervision, the client’s recorded emissions of pollutants with negative health impacts regularly exceeded WBG and national standards. IFC engaged with the client to follow up on agreed corrective actions. However, persistent delays in implementing pollution control measures have prolonged impacts on the local community from nuisance dust and cumulative health effects associated with air pollution. To date IFC has not demonstrated that the client’s methods of monitoring and reporting point source emissions are consistent with IFC requirements.
- **Fugitive Dust Emissions:** At appraisal, IFC recognized fugitive dust from the plant as having the potential for serious environmental impact on nearby communities, and secured ESAP commitments from its client to assess, mitigate and monitor performance in relation to dust emissions. In the early stages of supervision IFC agreed that the client did not need to assess its own contribution to ambient dust in the project area. Instead it was agreed that the client would implement stricter dust control measures. However, client actions to retrofit dust control measures were regularly delayed. Ambient dust was recorded from 2015 to 2019. To date, fugitive dust control remains a problem and IFC has not been effective in ensuring that the

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<sup>11</sup> The paragraphs in the shaded boxes that follow in this Chapter 3 are the CAO’s observations as presented in its report.

client is implementing good housekeeping practices for dust suppression in accordance with IFC requirements (Cement EHS Guidelines).

- **Transition to Solid Fuel:** IFC did not supervise the client's transition to solid fuel in accordance with PS requirements. In particular, IFC did not document its review of the client's draft EIAs for solid fuel and did not ensure that its client assessed the potential effects of transition in accordance with the Performance Standards.
- **Odor, Noise and Vibration:** IFC did not ensure that the client assessed impacts from noise and vibration in accordance with its EHS Guidelines. IFC has not required its client to take necessary steps to minimize or control noise from the plant, or to monitor or assess impacts from vibration in accordance with PS3, para. 9. In relation to odor, IFC gave clear remedial instructions to the client. However, IFC has not ensured that the client consulted with affected community members in relation to noise, vibration or odor as required by PS1, para. 30.

### 3.1.1 IFC Response: Observations Related to E&S Appraisal Review

74. The close proximity of the APCC plant to the Wadi Al-Qamar residential area was identified as a potential issue in the ESRS ("proximity of residential areas to the plant's southern boundary"), together with several related ongoing actions from the company to mitigate E&S risks to the communities.

75. Management concurs with CAO that there was a risk due to the presence of the community of Wadi Al-Qamar in a large industrial area and in close proximity to several industrial plants in addition to APCC, including refinery/petrochemical/chemical plants, such as Alexandria Petroleum, Alexandria Mineral Oils, and Misr Chemical Industries. All are equally located less than 200–300 meters from Wadi Al Qamar, and many of them have also been there for decades.

76. During IFC's pre-appraisal review, an Egyptian E&S specialist, familiar with national and local environmental and labor laws, assisted the lead E&S specialist, and reviewed and confirmed that TCE's policies, procedures and management systems met relevant laws and regulations.

77. Analyses of IFC's portfolio over several decades have demonstrated that previous client performance, whether positive or negative, is highly correlated with performance in repeat investments. As a result, in addition to its own appraisal findings, the IFC team derived comfort from its previous experience with the Titan Group, its well-documented E&S policies and performance, with strong commitment and high standards in health and safety.

78. The project E&S specialists also worked closely with IFC's industry specialist to confirm that APCC's and BSCC's emission control equipment was capable of meeting all relevant WBG EHS guidelines for key cement sector parameters (NO<sub>x</sub>, SO<sub>2</sub> and PM). The industry specialist's review confirmed that the company's facilities, layout and operational performance would ensure meeting performance levels consistent with the values presented in the EHS guidelines once the improvement measures which were already underway, as well as the items in IFC's original ESAP as updated in 2012 and 2015, were fully implemented.

79. Such considerations contributed to IFC's appraisal findings that the client had a solid track record on process efficiency, E&S management, labor issues, and corporate social responsibility. This appraisal approach was believed to be adequate and in accordance with practices at the time. The assessment could have been improved by IFC taking additional steps to assess the circumstances of having a large residential area adjacent to the plant and other industrial facilities, as well as legacy issues created by the earlier retrenchment. Changes to IFC E&S operational procedures since then, have increased the opportunity for early and robust community engagement and have improved assurance that grievance mechanisms are in place.

80. APCC's E&S assessment at the time of appraisal (including the EIA prepared in 2002) did not include a cumulative impact assessment on air quality, human health and noise from other existing sources in the project area, and IFC did not request TCE to carry out such an assessment. IFC did not consider one to be necessary, as the project did not increase APCC's footprint and production capacity, and as the use of IFC's proceeds included several environmental enhancements. The project was expected to result in a net improvement in ambient air quality and noise levels, and there were no cumulative impacts expected from further planned development of the project or other project-related developments that were realistically defined at that time.

81. Management acknowledges that without a specific assessment by APCC, IFC was not able to collect quantitative evidence that the project would not increase or reduce the overall direct impact on air quality and noise. However, during supervision IFC requested the preparation of additional air emissions and noise studies, as discussed below.

82. At the time of the appraisal contextual risk analysis was not part of IFC's approach or required in the Environmental and Social Review Procedures (ESRP). IFC's review role was therefore carried out in accordance with its procedures. Since then, IFC, consistent with developments across industry, has strengthened its analysis of contextual risks and potential contributions of its clients to cumulative impacts. To this end, IFC has significantly strengthened its contextual risk analysis. It initially prepared an internal Tip Sheet for E&S specialists ("Assessing Contextual Risk in IFC Projects"), which was issued in 2017, and later developed an internal Good Practice Note "*Contextual Risk Screening for Projects, Linking National-Level Risks to the Local Project Site in FCV and High Risk Contexts and Beyond*," which was launched in December 2019. IFC has also strengthened its practice in terms of review and assessment of cumulative impacts, as reflected in the Guidance Note 1 of the Performance Standard 1 (2012) and in the publication of the *Good Practice Handbook on Cumulative Impact Assessment and Management* (2013). Contextual risk screening and consideration of cumulative impact risk are now mainstreamed in all pre-investment reviews by IFC E&S specialists.

83. IFC's environmental due diligence of APCC could have been better documented. Certain documents reviewed at appraisal (for instance, the 2002 EIA) had not been located when CAO started drafting its report, although they were subsequently located and provided to CAO prior to the completion of the investigation report. While Management reiterates that IFC staff reviewed both the EIA and minutes of the most recent community meetings, as well as a copy of the company's 2009–2014 CSR strategy which included a commitment to expand community

engagement forums, it acknowledges that IFC files do not contain a documentary record of such consultation.

84. Management points out that IFC publicly disclosed the actions necessary for the client to reach air emissions targets. The ESRS dated November 10, 2009 states that *“Emissions are monitored daily and submitted online to the Egyptian authorities; current particulate emissions average approximately 128 mg/Nm<sup>3</sup>, which is within the Egyptian regulatory limit but exceeds IFC guidelines. The Company is in the process of upgrading the Electrostatic Precipitator (ESP) for the kiln to reduce particulate emissions. The Company has agreed to undertake measures (e.g., enhanced maintenance of ESPs or installation of supplemental controls) to ensure that the emissions are reduced to ≤100 mg/Nm<sup>3</sup> within a timeframe agreed with IFC (Action Plan item 2c). Recent air monitoring results showed NO<sub>x</sub> emissions at 448 mg/Nm<sup>3</sup>, which meets both Egyptian standards and IFC guidelines. SO<sub>2</sub> emissions are negligible.”* Correspondingly, the following action is listed in the ESAP dated November 10, 2009, *“Implement additional control measures at APCC to ensure that average annual particulate emissions are reduced to ≤ 100mg/Nm<sup>3</sup> with a timeframe agreed with IFC.”*

85. In 2012 and 2015 IFC updated and redisclosed the ESAP to require specific actions by the client on both stack emission and fugitive emission abatement and control. The amended ESAPs were informed by the site visits and data review, recognized APCC’s location in an area where ambient air quality monitoring would not reflect the contributions of a single plant, and accounted for the fuel switch due to the energy/fuel situation in the country. The updated ESAP required APCC to make emission control data available to stakeholders by disclosing emissions data on APCC’s web-portal. APCC has posted average emissions quarterly on the company’s web site since July 2016, albeit with a delay from the original deadline of 2013. Management agrees that IFC could have required APCC to continue engaging with, and report to, the community by including this as an item in the updated 2015 ESAP.

86. Since commitment, several actions to improve environmental performance have been completed by APCC in compliance with IFC’s PS requirements, as described in more detail below. As it has been noted, between 2010 and 2019, including during periods of difficult economic and financial conditions and contextual constraints, APCC invested over 220 million EGP (about US\$20 million) in environmental improvements for plant operations related to IFC’s specified ESAP actions.

87. Ultimately APCC’s implementation of the original ESAP as agreed in 2010 and updated in 2012 and 2015, in addition to the other environmental improvements completed during the life of investment, mitigated the exposure risks to pollution and potential adverse impacts due to plant operations.

### **3.1.2 IFC Response: Observations Related to Plant Licensing and Permits**

88. Management considers that IFC adequately supervised and documented that the client possessed the required national license and environmental permits. IFC’s pre-investment due diligence ascertained the existence of the required licenses prior to IFC disbursement. The company had valid operational licenses from 2005 to date, including the Industrial Development

Authority “merged license” and “industrial register” licenses, which were shared with the CAO as part of the information provided by IFC prior to the finalization of the CAO report.

89. IFC was aware that in 2012 legal action was filed seeking the abolition of the administrative decision of the Egyptian authority that issued the operating license for the APCC plant in Alexandria, alleging violations of environmental and related regulation. In 2018, the court rejected the case and decided this issue in favor of APCC.

90. The Egyptian Environmental Affairs Agency (EEAA) oversees review of EIAs. When the EIA for a development is approved, EEAA issues an “EIA permit.” EEAA affiliated authorities conduct regular periodic inspection audits to verify compliance with applicable laws and legislation, or specifically to follow up on a complaint.

91. Management further notes that on multiple occasions IFC discussed with the client the EIA permits issued or renewed by EEAA for the APCC plant. The company’s compliance with national EIA permit requirements was monitored and regularly discussed by IFC with the client. Over the time of the investment, only two notifications of minor violations resulting from EEAA audits were received, rectified by the company and reported to IFC.

### **3.1.3 IFC Response: Observations Related to Point Source Emissions**

92. Between the time of IFC’s commitment in 2010 to its exit in 2019, all agreed ESAP actions related to both point source emission control and fugitive dust control (discussed below) had been completed.

93. Management reiterates that the portion of IFC’s investment going to APCC was to enable process improvements and debottlenecking and reduce point source air emissions from the plant, which would result in a net improvement in ambient air quality. As such, at appraisal IFC did not require an assessment by the client to determine if the airshed was degraded. As indicated above in Section 3.1.1, IFC anticipated some point source exceedances at appraisal, as stated in the ESRS, and included a corresponding action in the ESAP.

94. During supervision, the IFC project team and IFC management regularly engaged with the company to follow up on agreed corrective actions and alignment with the performance values included in the WBG EHS Guidelines for the cement manufacturing sector. Where deviations occurred, IFC worked with APCC to address the situation and prevent further emissions events, applying the necessary pollution prevention and control techniques referenced in WBG EHS Guidelines.

95. The required emission controls for PM were implemented by June 2012, and full implementation of the NOx pollution control measures was completed in 2016 (as described below), although some key improvements were completed in 2012, such as relocating/replacing the secondary burners (a primary measure to improve NOx emission performance) and ongoing process improvements.

96. APCC upgraded its PM emission controls in 2012. APCC’s average annual PM emissions were reduced by more than 90% to a level well within WBG EHS Guidelines value (from 205

mg/Nm<sup>3</sup> in 2011 to below 20 mg/Nm<sup>3</sup> since 2013; the relevant Guideline for emissions from existing kilns is 100 mg/Nm<sup>3</sup>). This was a major project requiring a long shutdown, impacting production and profitability, at an investment cost of US\$4.2 million.

97. In 2014 and 2015, APCC upgraded the ESPs in Cement Mills 7 and 6, respectively, at an investment cost of US\$1.1 million, and in 2017–19 replaced the ESP unit for the clinker cooler exhaust with a more efficient bag filter, at a cost of US\$3.8 million. These investments further reduced APCC's PM stack emissions.

98. In 2016, APCC commissioned a new SNCR control system which decreased emissions of nitrogen oxides (NOx) from between 613 and 749 mg NOx/Nm<sup>3</sup> in 2011–2015 to between 331 and 568 mg NOx/Nm<sup>3</sup> in 2017–2019, consistently below both the national standard and applicable WBG EHS Guideline value of 600 mg/Nm<sup>3</sup>. To IFC's knowledge, TCE remains the only cement company that has installed SNCR in the country, incurring an operational cost of about 0.3US\$/t of clinker, equal to about US\$400,000 annually for the APCC plant alone.

99. TCE's CEMS was installed in 2011, shortly after IFC's investment, as a requirement for meeting WBG EHS Guidelines. CEMS is considered good international industry practice, an appropriate method to monitor point source emissions, and one that enables accurate review and management of air emission performance. IFC verified implementation of the CEMS and randomly reviewed data collected through the system to confirm that emission performance was aligned with WBG EHS Guideline values (daily average values corrected to 273 K, 101.3 kPa, 10 percent O<sub>2</sub>, and dry gas).

100. In 2017, in keeping with good international practice, TCE further modernized its CEMS with the installation of new gas analyzers for PM, NOx, SO<sub>2</sub>, HCl and TOC.

101. As part of IFC's supervision, IFC reviewed ambient air quality data for Total Suspended Particulates (TSP) and PM10 and requested the company carry out air emission dispersion modeling. Two modeling studies were carried out, in 2012 and 2014, as part of TCE's assessments related to transitioning to solid fuel. The two modeling studies were coupled with quarterly ambient air quality measurements, which demonstrated compliance with national standards. Air modeling in 2014 predicted that ambient air quality of the receiving environment was within the limits set by Egyptian laws and regulations for all relevant pollutants (NO<sub>2</sub>, SO<sub>2</sub> and TSP).

102. Management therefore holds that IFC adequately supervised the project's point source emission performance and worked with the client to reduce point stack emissions to meet WBG guideline values. At the time of IFC's exit, stack emissions of particulate matter, NOx and SO<sub>2</sub> were in compliance with national standards and within the WBG guideline performance levels.

103. With respect to TOC emission levels, CAO observed that, *"following the change in fuel used by the plant in 2015, total organic carbon (TOC) levels exceeded WBG standards and national levels for the first time. Levels improved in 2016 but rose again in 2017, and the client reported it was seeking an exemption from the EEAA. In early 2018 IFC advised the client that, even if an exemption was granted, WBG standards require that the client justify the exceedance and show it is not harmful to human health or the environment."*

104. Management confirms that the TOC levels at APCC, as measured through the newly installed CEMS and reported by TCE, were slightly above national limits and WBG EHS guidelines values. IFC requested an assessment of the reasons for the increased TOC levels and engaged with experts at the Titan Group technical center to confirm the source of the TOC. The study concluded that the source of the TOC was not related to the use of solid fuel, but rather to the organic content of raw materials (limestone, clay, marl, gypsum) available.

105. The same assessment confirmed that APCC's plant emission levels were predicted to be within the range 5–27 mg/Nm<sup>3</sup> and were consistently within the range. Organic carbon levels were reported to be slightly above (averaging 23 mg/Nm<sup>3</sup> in 2017 and 16 mg/Nm<sup>3</sup> in 2018) the national standard and WBG EHS Guidelines performance level. However, they are in the identified range for TOC (between 1 and 40 mg/Nm<sup>3</sup> yearly average values) for European cement kilns, as reported by *Best Available Techniques (BAT) Reference Document for the Production of Cement, Lime and Magnesium Oxide*.<sup>12</sup>

106. IFC concurs with CAO's observation that the specific health impacts of organic carbon are unclear but can be reasonably concluded as very low risk in this case. Based on the available air emission dispersion model, it can be inferred that in 2017 and 2018 maximum daily averages of ground level concentrations for TOC would be at or less than 2 µg/m<sup>3</sup> and annual averages would be less than 0.5 µg/m<sup>3</sup> at a distance of about 1,200 meters from the stack. These levels are considered insignificant with respect to any potential identification of effects on human health and environment, an observation which, given the association of potential health effects of organic carbon as constituents of final particulate matter, should also be coupled with the improved levels of fine particulate matter in air within the national standards as measured in 2018 and 2019.

107. In January 2019, the company reported to IFC that it had presented to Egyptian authorities the required documentation to notify and justify the TOC emissions exceedances of national standard (10 mg/Nm<sup>3</sup>).

108. Management considers that the pro-active reporting of TCE on the TOC levels at APCC and the relevant discussions in 2018–2019 are a practical demonstration of effectively implemented reporting and supervision requirements by the client and IFC.

109. Management also wishes to highlight that since the time the project was appraised against the 2007 WBG EHS Guidelines for Cement and Lime Manufacturing, IFC has continued to work with its stakeholders on incorporating lessons learned from projects, including the investment in TCE, and update the technical reference to good international industry practice (GIIP) in terms of particulate matter controls. Lessons learned on limitations of ESPs vs more reliable bag filters were instrumental in IFC's decision to update the reference to GIIP in the latest revision of the EHS Guidelines for the sector, which was published for second public consultation in 2018.

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<sup>12</sup> In assessing BAT for the cement sector, IFC refers to the most recent *Best Available Techniques (BAT) Reference Document for the Production of Cement, Lime and Magnesium Oxide*, produced by the European Integrated Pollution Prevention and Control Bureau (EIPPCB), which states that "TOC emissions reported from European cement kilns are in the range of between 1 and 40 mg/Nm<sup>3</sup> (yearly average values) and can be higher depending on the raw material characteristics."

### 3.1.4 IFC Response: Observations Related to Fugitive Emissions

110. As recognized by CAO, Management reiterates that fugitive dust control had been identified as both an E&S and technical issue during the pre-investment appraisal and had been subject to an aggressive control program launched by TCE. Because TCE already had a program in place to address fugitive dust emissions, the original ESAP did not include this as an action item; however, fugitive dust control was subsequently added to the updated 2012 ESAP. APCC agreed to develop a raw material handling plan to require that all materials be covered or secured to minimize fugitive dust emissions, with a budget and initial completion date of 2014.

111. As part of the 2012 ESAP update, the company agreed to develop and implement a raw material handling plan to minimize fugitive dust emissions by 2014, requiring that all materials be covered or secured. APCC developed and implemented the actions to limit fugitive dust emissions, including covered raw material storage and improved housekeeping measures. All agreed actions from the updated 2012 and 2015 ESAPs to improve fugitive dust control were completed at the time of IFC's exit. Additional coverage projects have been completed since CAO visited APCC in January 2017. In total APCC implemented five major (over 40 in total) bag filters improvements, seven major covered storage projects and an additional 10 fugitive dust control projects. Specifically:

- (i) Covered storage was installed for gypsum, clinker, limestone, iron ore, clay, and the cement mill feeding points.
- (ii) The Zero Spillage program implemented by APCC from 2009 through 2017 included the following interventions: cladding of clinker conveyers; cladding of the cooler area; cladding of the back side of the plant located close to the fence wall separating the plant from Wadi Al-Qamar; installation of a stationary vacuum cleaner for the raw mill building; cladding of the clinker silo bag filters area, preheater, and clinker feeder; coverage of the limestone feeding point; installation of a dust suppression system for the reclaimer; installation of telescopic chutes for the bypass and clinker silo; procurement of a road sweeper to clean the plant's paved areas; and procurement of an industrial vacuum truck.

112. The company regularly monitored ambient air dust (TSP and PM10) concentrations at four different locations throughout the plant. Ambient dust concentrations have decreased since 2016 and are within national limits.

113. Management holds that IFC was compliant in relation to supervision obligations.

### 3.1.5 IFC Response: Observations Related to Transition to Solid Fuel

114. Management holds that IFC was compliant in relation to pre-investment review and supervision obligations and that, as observed by CAO, it took steps to ensure that the client addressed fugitive dust from the use of solid fuel and had monitored the client's implementation. IFC makes supplemental actions part of the ESAP necessary conditions of IFC's investment only when such actions are required to ensure that the business activity meets IFC's PSs. Given the company's performance in terms of GHG emissions, which were within the range of good industry

practice for the sector, in addition to the ongoing actions by the company to improve kiln performance, no actions related to energy efficiency were deemed to be necessary to meet the objectives of PS3 and, therefore, no relevant actions were included in the ESAP.

115. During supervision, IFC worked extensively with APCC to address potential adverse environmental impacts of the government-mandated transition to solid fuel (and also use of alternative fuels). This was demonstrated by the additional action included in the 2015 update of the ESAP and that related to addressing fugitive dust from the use of solid fuel. As part of the process, and to meet ESAP requirements, APCC constructed two covered storages (daily storage and main storage) for raw solid fuels, which are both operational.

116. As part of its supervision, IFC asked the company to provide the corresponding EIA and received and reviewed it in 2015 before the coal mill was commissioned in 2016. A public hearing was held on March 25, 2015.

117. During supervision, IFC engaged with APCC on alternative fuels options and use. IFC assured itself that the relevant EIAs, including the Alternative Fuel EIA, were prepared, as required by national law, and engaged with TCE on the content of the EIA and the relevant management plans developed for the transition to solid fuel in APCC.

118. Following IFC's 2013 analysis on the impact of gas shortages on the cement sector in Egypt, IFC staff analyzed whether the switch to solid fuel would significantly impact CO<sub>2</sub> emissions and proposed certain industry-wide mitigation initiatives in response. In addition to improving energy efficiency, the main levers for reducing emissions were to reduce the percentage of clinker by promoting the use of blended cements and the increased usage of alternative fuels. The implementation of these actions in APCC was tracked annually throughout the period of IFC's investment.

### **3.1.6 IFC Response: Observations Related to Noise, Vibration, and Odor**

119. As part of the pre-investment review, IFC did not require the client to assess potential impacts from noise and vibrations through specific studies. Management agrees that IFC could have taken further action to ensure that the client carried out adequate analyses and that the significance of noise and vibration impacts was made known to stakeholders. Management points out that elements of the process improvements and debottlenecking for which IFC's investment in APCC was targeted (for example, cladding and covering the conveyor and relocating the storage area) were also expected to result in a decrease in noise levels. Noise and vibrations were not identified as a problematic issue during the early stages of the project, nor were they raised as a priority issue in a community survey of 10 percent of the 50,000 residents of Wadi Al-Qamar that TCE carried out in 2014–2015.

120. Management notes that during supervision several actions to assess and monitor sound levels had been implemented since noise-related issues were raised in the 2015 complaint to CAO. A qualified consultant was engaged by the company to carry out background noise measurements both during the plant shutdown in August 2017 and while the plant was operating in September 2017. As part of the actions agreed in January 2018, APCC agreed to hire a specialized consultant to carry out a noise modeling study for which IFC provided guidance in

defining the scope of work. This further study was not completed by the client at the time of IFC's exit.

121. Management concurs with CAO's observation that during supervision in December 2016, IFC noted issues with odor and gave clear instructions to APCC to address these. Subsequently, in 2017, APCC reported that it had addressed the issue, which was related to inadequate controls of the moisture content of wastes received at the plant for the refuse derived fuel facility.

### 3.2 SUMMARY OF CAO OBSERVATIONS ON COMMUNITY ENGAGEMENT

- CAO finds that IFC's appraisal and supervision of community engagement issues fell short of relevant requirements for disclosure of project E&S information, reporting on implementation of corrective actions, consultation with affected communities, and security risk management.
- **Disclosure of Information:** IFC's initial disclosure of project information and its review of client disclosure was insufficient. In particular, IFC did not disclose relevant E&S Assessment documentation reviewed as part of its E&S due diligence as required by the Access to Information Policy (para. 13(a)). IFC's ESRS notes that the client reported that it held public meetings, but IFC documentation does not indicate any review of the client's public disclosure practices in connection with, or independent of, those meetings. As a result, CAO finds that IFC lacked assurance that the client's public disclosure practices met the requirements of PS1 (para. 20) at the time of investment. Through IFC supervision, client disclosure of its air emissions improved, albeit with significant delays. To date, however, CAO finds no indication that IFC is supporting its client to report regularly to affected communities on other aspects of its environmental performance or mitigation actions consistent with PS1 (para. 26).
- **Consultation:** IFC's pre-investment review did not document client consultation with affected communities (PS1, paras. 21–22). Although the project presented significant adverse impacts on affected communities living in close proximity to the plant, IFC did not assure itself that there was broad community support for the project (Sustainability Policy, para.15). IFC's supervision did not provide assurance that the client was conducting effective consultation (PS1, para. 21). When conflict between APCC and the local community escalated, IFC did not review the client's track record of consultation or advise the client on how to address critical E&S issues through community engagement. Despite indications that the client's approach to consultation was not consistent with PS1 requirements, IFC did not flag this as a compliance issue, nor did IFC support the client to develop an approach to community consultation that reflected the requirements of PS1 (Sustainability Policy, para. 26).
- **Security and Grievance Handling:** IFC's pre-investment review did not adequately consider requirements to establish a structured complaints mechanism or to assess and manage security risk (PS1 and PS4). While IFC has recommended that the client formalize its approach to community complaint handling, to date IFC lacks assurance that the client has a functioning grievance mechanism (PS1 para. 23). IFC reviewed its client's private contracted security arrangements and noted gaps in relation to PS4 requirements following concerns raised by civil society in 2014. To date, however, IFC lacks assurance that the client's approach to security meets PS4 requirements, including requirements to assess and mitigate

risks associated with the deployment of public and private security personnel. This is of particular concern in the context of a facility where there have been community protests and armed security responses during the period of IFC's investment.

### **3.2.1 IFC Response: Observations Related to Disclosure of Information**

122. In compliance with the policy, IFC did publicly disclose the ESAP, including the actions necessary to reach air emissions targets, which would therefore have been available to local communities. Under IFC's supervision, APCC made significant progress in its reporting of air emissions. Improvements are reflected, for example, in the 2016–2019 APCC Dust Emissions and Water Consumption quarterly data published on the client's website. Management agrees that certain documents reviewed by IFC at appraisal and referenced in the 2009 ESRS (such as the 2002 EIA for the construction of Kiln 5, prepared for Blue Circle) were not publicly disclosed. At the time of appraisal, the kiln was operational for seven years. IFC considered the documents of limited quality and outdated, and not relevant to the proposed investment. Management maintains that IFC was not required to make available electronic copies of such environmental impact assessment prepared by a previous operator of the APCC plant. Nonetheless, IFC will disclose the EIA and, in summary form, the CO<sub>2</sub> emissions audit.

123. Management further agrees that IFC could have considered an inclusion of an ESAP item on the disclosure of environmental performance data in a format that would enable local communities to easily ascertain whether the company is complying with WBG guidelines and Egyptian regulations. This would have allowed IFC to assure itself that APCC would continue to engage with, and report to the community.

124. Management believes that IFC's consistent supervision of the investment, on the part of both the project team and IFC management, has led to material improvements in APCC's information disclosure practices. These include quarterly disclosure of air emissions data, and preparation and disclosure of annual CSR and Sustainability Reports in accordance with widely accepted international standards (GRI) that include relevant environmental and social performance indicators. In 2018, TCE publicly disclosed its first independently verified CSR and Sustainability Report. TCE also provided real-time access to its air emissions measurements to their key regulatory stakeholder (EEAA), which monitors the environmental performance of the plant on a continuous basis. TCE has notified communities that they can reach out directly to EEAA, as well as to APCC plant management, if they have concerns regarding the company's environmental impacts.

125. Management recognizes, however, that APCC's information disclosure practices would nonetheless benefit from further improvements by it, particularly preparing and communicating an environmental performance report in a format that is accessible to the affected community.

### **3.2.2 IFC Response: Observations Related to Consultation**

126. Management is of the view that IFC raised community engagement issues with TCE during appraisal, annually throughout supervision and in follow-up communication with the client on the part of the project team and IFC management, on an ongoing basis.

127. At the time of IFC's investment, IFC had a general practice of assigning E&S category B to brownfield projects like this one with no land take, no facility expansion and no new emission sources. In accordance with this practice, IFC categorized this project as Category B. As a result, it did not undertake Broad Community Support (BCS), in accordance with its practices. In hindsight, Management agrees that given potentially significant air pollutant emissions of the existing facility, its proximity to the local community of Wadi Al-Qamar and cumulative impact risks, this could have been an E&S category A project and IFC could have evaluated the project's BCS.

128. At appraisal, IFC's understanding was that the client was holding regular meetings with nearby communities and had established a long-term strategy that included expanding its commitment to Stakeholder Forums. IFC acknowledges that there was no documentation in IFC's or TCE's archived files to demonstrate implementation and outcomes of such engagement.

129. Management reiterates that APCC confirmed to IFC during appraisal that it was conducting regular client meetings with communities and showed IFC minutes of the most recent such meetings. Moreover, during appraisal, the company provided IFC with a copy of the 2009–2014 CSR strategy, which included a commitment to expand community engagement forums. IFC considered these documents to be a further evidence of the company's intent to undertake more systematic engagement with communities. Management acknowledges, however, that IFC has not retained a documentary record of such consultation done by the company prior to investment.

130. Management acknowledges that, during appraisal, IFC could have independently sought the community's views regarding risks and adverse impacts of plant's operations at the time of IFC's investment, as well as on the actions being undertaken by the company to mitigate these risks and impacts, and could have included ongoing community consultation as a specific commitment in the ESAP disclosed with the ESRS prior to investment.

131. Management holds that, during supervision, IFC complied with its policy obligations and provided guidance to APCC to improve its community engagement efforts. Management is also of the view that IFC's supervision was proactive in identifying areas of improvement with the objective of assuring itself that the client was conducting effective consultation, as described below.

132. Management recognizes that the relationship between the company and the community needs to be viewed through the lens of the Arab Spring uprising and the volatility that ensued, including the 2011 attack on the APCC plant where the administration building was set on fire by protestors to demand that the plant be moved; and the taking hostage of APCC staff by a group of 150 contract workers in 2013 to demand direct employment. In IFC's view, CAO's reference to this latter incident as "a strike and sit-in" does not reflect the severity of the incident of 2013 at the company's facilities, which was disclosed in the relevant EGX announcement by the company. On the heels of these incidents, the client was seeking the most suitable ways to re-engage with communities and initially focused its efforts primarily on targeted charity activities to benefit neighboring communities. Prior to the emergence of the political context described above, IFC had not been notified of any community incidents or grievances regarding the project or its proximity to communities.

133. Due to the security situation IFC could not visit the project in 2011 and 2013 and was not able to meet with the community during the 2012 APCC supervision visit. The company started to re-launch community engagement activities toward the end of 2013. Documents submitted to IFC at the time indicate that TCE had undertaken a detailed mapping of its stakeholders and available communication channels for engaging with different stakeholder groups. In December 2013, IFC organized a workshop at the Titan Group level with participation of the Group Sustainability and CSR Manager and supported TCE in further developing community outreach strategies. IFC consistently highlighted to TCE the need for a more structured approach to community engagement. Following IFC's recommendation, APCC engaged a local NGO (SCD) in 2014 to undertake a community needs survey to help inform its programs to provide services and benefits to the community.

134. In 2015 SCD conducted the community needs and perceptions analysis in Wadi al-Qamar. This was an extensive effort that included a socioeconomic assessment, face-to-face discussions, focus groups and receipt of over 1,000 surveys completed by local residents. The objectives of this work were twofold: to determine priority areas that the community wanted APCC to support, and to engage directly with community members to better understand their concerns and expectations regarding the environmental impacts of the plant. Based on the outcomes of this initial research, and of subsequent annual surveys, APCC reoriented its community investment programs and upgraded its environmental management of the APCC plant. The publicly available *Titan Cement Group Integrated Annual Report* for 2019 said that among the nine countries where it has operations the Titan Group had spent the largest portion of its CSR budget in Egypt in the previous year.

135. While APCC's continued commitment by contracting SCD helped strengthen communication channels and establish positive relations with the Wadi Al-Qamar community, the company's community engagement approach remained focused on CSR, rather than systematically addressing community concerns related to potential adverse impacts and environmental performance of the plant. Management recognizes that the company's approach did not fully meet the requirements of PS1 for stakeholder engagement.

136. Developing a formal community engagement procedure and grievance mechanism was not included in the original ESAP, nor in the revised 2012 and 2015 versions. A supplemental action was agreed with the client in January 2018 and included establishment of a formal community communication plan and grievance mechanism and the hiring of a Communication Manager responsible for implementing the plan.

137. Management notes that APCC prepared and implemented the communication plan in 2019 that included environmental events (for example, organizing a public inauguration when the new clinker cooler baghouse filter was commissioned), periodic updates for the members of Parliament for Wadi Al-Qamar and El-Dekheila, and meetings with Wadi Al-Qamar youth. At the time of IFC's exit in November 2019, the company had prepared the communication plan, although it still needed improvements, notably with regard to (i) a systematic approach to communicating environmental emissions and mitigation measures in a format accessible to the community, as well as (ii) a formal mechanism to receive community feedback.

### 3.2.3 IFC Response: Observations Related to Grievance Redress

138. Management notes that at the time of the investment, accepted practice was for IFC to assure itself that a channel of communication was both available and made known to residents, local government officials, and other stakeholders. At appraisal APCC confirmed to IFC that contact information for the APCC Plant Manager and EHS Officer were posted at the gate to the plant, provided to key municipal and community leaders, and included on documents prepared for community meetings and circulated to residents. The company shared with IFC examples of recent communications from residents concerned about unexplained noise and how these had been handled, copies of which were unfortunately not retained by IFC's project team.

139. Management concurs, however, that APCC's practice did not amount to a formal grievance handling procedure as required by PS1 and agrees that, at appraisal, a requirement to establish a formal, written and adequately publicized stakeholder grievance mechanism was not included in the ESAP disclosed along with the ESRS prior to investment.

140. Management notes that throughout the project supervision period TCE established multiple channels to receive and process grievances related to APCC's operations and relevant risks and potential impacts. These mechanisms are as follows:

- (i) Engaging SCD (the NGO coordinating the community CSR program), whose staff have daily contact with community members and conduct monthly update meetings with plant management;
- (ii) Inviting Parliament members who represent area residents to regular meetings with the plant management;
- (iii) Ensuring that verbal complaints from community members or workers are submitted directly to the plant manager or human resources staff; and
- (iv) Setting up an online inquiry form that is publicly available on TCE's website.

141. In addition to these channels, communities can and have submitted complaints to the EEAA office in Alexandria that may trigger an inspection at the plant.

142. Management believes that the channels described above allow for submission of complaints, either directly or anonymously. However, APCC implemented an informal grievance policy which fell short of PS1 requirements in terms of documentation and formalization of a grievance mechanism in the company's management system.

### 3.2.4 IFC Response: Observations Related to Security

143. While the 2006 version of PS4 included requirements on security, this was not an area where guidance for staff and clients existed at the time. Management therefore recognizes that IFC's review of security arrangements and risks pre-investment could have been more thorough, had such guidance existed. While teams were required to inquire about security arrangements, if in their professional judgment they did not identify any foreseeable risk associated with those arrangements, then a more detailed review, as per current practice in terms of security risk

assessment, would not be done. Major security incidents related to the Arab Spring that occurred in 2011 and 2013 (respectively two and four years after appraisal), rendered PS4 security requirements a much greater material risk than was foreseen at the time of appraisal.

144. Management agrees that during the early stages of project's supervision IFC could have undertaken a closer review of the project's performance with respect to security arrangements and risks under PS4 requirements, given the changing contextual risks in the country, and especially given the community protests and violent events that occurred in 2011 and 2013, which necessitated the intervention of the police and armed forces.

145. Management notes, however, that these incidents occurred during the turbulent socio-political period that engulfed the entire country between 2011 and 2013 and were not typical either before or after this period. Throughout IFC's supervision, there were no public security guards permanently posted at the plant. Rather, the company engaged a private, unarmed security contractor to safeguard its premises, and its role was mainly focused on gatekeeping and general surveillance; hence, the plant's security arrangements were not seen as posing a significant risk to communities.

146. Subsequently, as part of the supervision and assurance that the client's approach to security met PS4 requirements, IFC reviewed TCE's private security contracts in 2015 and conveyed to its client to include a Code of Conduct for respecting human rights and ensuring that any use of force will be within the law. With the reduced security risk level post-2013, IFC did not request additional risk assessments or management plans from the client. IFC was reassured by the Titan Group Code of Conduct adopted in 2012, which was applicable to the company's contractors and suppliers and highlights the company's commitment to human rights as defined in the Universal Declaration of Human Rights and the International Labour Organization's conventions.<sup>13</sup> Management nonetheless agrees that formalization of a Security Management Plan for APCC, including a grievance mechanism and risk assessment, could have accelerated implementation of these policies.

### 3.3 SUMMARY OF CAO OBSERVATIONS ON LABOR AND WORKING CONDITIONS

- **2003 Retrenchment:** IFC was aware of disputes relating to the client's 2003 retrenchments at the time of its investments. However, IFC did not identify the retrenchments as a legacy issue and did not explore remediation measures with its client (contrary to Sustainability Policy, para. 13). During project supervision, IFC did not engage its client on the retrenchment issues when the 2003 early retirees began protesting to raise their grievances and did not ensure that its client had in place a grievance mechanism that was appropriate to address these issues (contrary to PS1, para. 23).
- **Contract workers:** IFC's project due diligence and early supervision did not assess the client's compliance with PS2 requirements that extend protections for working conditions, freedom of association, and health and safety to non-employee workers, who may include contractors (para. 17). From 2014 onwards, IFC has reviewed the client's contracts with labor

<sup>13</sup> [https://www.titan.gr/Uploads/Code\\_of\\_Conduct\\_%CE%95%CE%9D.pdf](https://www.titan.gr/Uploads/Code_of_Conduct_%CE%95%CE%9D.pdf)

supply companies and has worked with the client to bring some aspects of its engagement with those companies into compliance with PS2, para. 17. However, IFC has not assured itself that the client has used commercially reasonable efforts to require that supply companies apply PS2 requirements relating to freedom of association or worker health and safety.

- In relation to freedom of association, CAO finds that IFC has not ensured that its client allowed contract workers to express grievances and protect their rights regarding working conditions and terms of employment as required by PS2, paras. 9 and 10. IFC did not consider the country or sector context in relation to labor and working conditions or freedom of association and did not document any PS2 risks or restrictions on workers' organizations during its due diligence. From 2014, IFC recommended that its client include appropriate freedom of association protections in legal agreements with their contract labor supply companies but has not assured itself that the client has done so.
- In relation to contract workers' safety and health, CAO finds that IFC's early supervision did not adequately consider its client's compliance with the EHS Guidelines. Following complaints from civil society and former workers, IFC identified inadequacies in PPE use and labor supply company oversight. In 2018 and 2019, IFC specifically advised its client to enhance systems for selection and monitoring of labor supply companies, including training of contract workers. At the time of IFC's divestment, however, the client retained contractual provisions that aimed to limit the client's liability for OHS of contract workers, contrary to GIIP. Further, there is no indication that IFC's recommendations from 2018 and 2019 regarding OHS had been addressed.

### **3.3.1 IFC Response: Observations Related to Labor Issues Associated with the 2003 Retrenchment**

147. The legacy retrenchment that occurred in 2003 preceded Titan Group's operational control of APCC (from 2008) and IFC's investment (in 2010). When APCC carried out VELP efforts in 2002 and 2003, Lafarge was the plant operator, and it was only in 2008, when Lafarge sold its 50 percent JV stake to Titan Group, that Titan became the majority owner of the APCC and BSCC plants.

148. IFC's appraisal related to assessment of contextual risks and legacy issues was in line with accepted practice at the time. Under the current practice, considerations would have been given to the potential reputational risks associated with legacy retrenchment in 2003. Learning from this experience, IFC worked closely with TCE and APCC during supervision to ensure that the implementation of the VELP in 2016–17 complied with PS2 requirements.

149. Management disagrees with CAO's observation that IFC did not engage with the client on issues/protests related to the 2003 retirees. The protests at the plant site began around the time of the Arab Spring. Contrary to CAO's observation, IFC did monitor and discuss the APCC protest issues during supervision. Supervision documents show IFC raised the issues with the client multiple times, particularly related to labor. The IFC project team regularly apprised IFC management on developments related to the protests, and IFC management actively communicated with Titan Group management to underscore the importance of understanding and

addressing the concerns that had led to the unrest. Because TCE's employee grievance mechanism in place at the time was not a channel available to retirees, IFC did not ensure its client had a grievance mechanism in place to address such issues. TCE currently has channels in place for community members, including any retirees, to raise complaints and IFC has worked closely with TCE to formalize these channels.

### **3.3.2 IFC Response: Observations Related to Labor Issues Associated with Contract Workers**

150. Management holds that labor practices at APCC were in material compliance with the 2006 Performance Standard 2 (PS2) and good international industry practice and remained compliant at the time of IFC's exit in 2019. This conclusion was substantively confirmed by an independent labor consultant engaged by IFC between 2015 and 2017 to review the company's human resources and OHS policies, including policies for managing contract workers.

151. During pre-investment IFC did assess PS2 issues for the workforce of the company, which included contractors. This is demonstrated in the ESRS, which covered specific sections of PS2. The ESRS did not make specific reference to contractors but rather referred to "all employees." Management acknowledges that it would have been clearer if IFC's review had differentiated between the two types of workers. Data collected as part of the appraisal and supervision show revisions to the company's environmental and social management system, including human resource policies, code of conduct and worker grievance mechanism, which apply to both direct and indirect workers. IFC effectively monitored PS2 requirements for contract workers through supervision, as recorded in annual supervision reviews and reports.

152. IFC's project monitoring included input from an external labor expert from 2014 in relation to labor and OHS conditions and performance at APCC (and BSCC). The company's progress in implementing the relevant action plan was monitored by IFC during site visits and its review of the company's AMR. All items in this action plan had been completed at the time of IFC's exit.

153. ***Freedom of Association and Health & Safety of Contract Workers:*** Management further holds that through its supervision IFC ensured that the company used "reasonable efforts to apply requirements of PS2 with exception of paragraphs 6, 12, and 18" (PS2, paragraph 17) for non-employee workers.

154. The project team did assess the company's policies on freedom of association and working conditions and described these in the ESRS. IFC met with union representatives and monitored APCC's commitment to freedom of association as part of its supervision program. Contextual risks in Egypt changed dramatically as a result of the Arab Spring, and IFC monitored the emerging issues impacting the project.

155. IFC assessed labor and working conditions for non-employee workers (PS2 2006 c.17) on an ongoing basis during supervision, increasing its technical support to TCE by adding a labor consultant to the project team in 2015. The consultant's assessment indicated that contractors were performing either (i) specialized tasks such as security or electrical maintenance or (ii) non-core tasks such as gardening. IFC conducted focused interviews with contract workers. In focus groups with contract workers in 2018–2019, IFC determined that several of the contract workforce

members were assigned to tasks such as packaging and sampling, tasks typically undertaken by contractors in the cement industry globally. IFC also reviewed sample contracts and the Titan Group Code of Conduct and satisfied itself that they complied with PS2.

156. In response to CAO's observation that freedom of association was not specifically mentioned in contract workers' contracts, Management notes that when the Titan Group launched a new Human Rights Policy in 2016, TCE undertook a full review and update of its contract agreements, and TCE incorporated PS2 requirements into the contract, including the respect for "labor rights" and clauses banning any discrimination based on "political or other opinion related" grounds. IFC reviewed TCE's standard contracts and asked the company to remove any clauses that could be interpreted as a limitation on workers' right to organize, and IFC understood that these updates were reflected in the most recent contracts. The Titan Group Code of Conduct adopted in 2012 applies to TCE's contractors and explicitly refers to respect for freedom of association.<sup>14</sup>

157. **Grievance Mechanism for contract workers:** Management is of the view that IFC assured itself that the client allows contract workers to raise grievances in a manner consistent with PS2. TCE developed a formal worker grievance mechanism for both direct and indirect employees that meets PS2 requirements and is accessible through anonymous submission boxes located throughout the plant. IFC verified with contract workers that the grievance mechanism and union representatives are accessible to them. The revised contracts include requirements for the contractor to "provide access to a grievance mechanism, so as employees may communicate with the contractor's management without prejudice to the provisions of laws and national security concerns." During supervision visits, both company HR and contract workers provided IFC with examples of grievances that were raised by contract workers and addressed.

### 3.3.3 IFC Response: Observations Related to Occupational Health and Safety

158. IFC assessed and supervised the client's policies and procedures, including OHS guidelines, which apply to everyone at APCC's premises. These guidelines include general instructions for employees and contractors. TCE also references *Safety in the Cement Industry: Guidelines* for measuring and reporting developed by the Cement Sustainability Initiative of the World Business Council for Sustainable Development. As part of its annual reporting to IFC, the company provided data on workplace monitoring, including levels of compliance with WBG EHS guidelines and Egyptian law, and evidence of workplace air and noise monitoring. IFC verified through supervision that all policies and procedures were applied, and where there were gaps and/or non-compliances, these were raised with the company and corrective actions put in place.

159. At the time of the pre-investment review and the relevant field visit in September 2009, IFC was satisfied by the visible commitment level in terms of protection of occupational health and safety of staff and contract workers. TCE's health and safety booklet, which was available at that time, clearly indicated the importance that the company had always placed on providing the same healthy and safe working conditions and PPE to contractors as well as to staff.

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<sup>14</sup> [https://www.titan.gr/Uploads/Code\\_of\\_Conduct\\_%CE%95%CE%9D.pdf](https://www.titan.gr/Uploads/Code_of_Conduct_%CE%95%CE%9D.pdf)

160. TCE's safety management system is OHSAS 18001 certified by a reputable certification company and is aligned with the "Recommended Good Practice for Contractor Safety" published by the Global Cement and Concrete Association (previously the Cement Sustainability Initiative), of which Titan Group is an active member.

161. Management is of the view that, throughout supervision, IFC worked closely with TCE to review OHS compliance of contractors both through its review of contractual requirements and safety performance indicators, and through annual supervision site visits. As pointed out by the external labor expert hired during supervision, contractors were responsible for providing training on OHS to their workers, supported by TCE staff in recognition that contractors must follow plant-specific safety protocols. During the period of IFC's investment, the company amended contractors' contracts to include a detailed environmental, health and safety addendum that specifies the safety requirements consistent with PS2 and WBG EHS Guidelines. TCE offers health insurance coverage to both its direct and indirect workforce.

162. IFC assured itself that APCC regularly monitored the OHS performance and compliance of its contractors and reported any accidents among contractor personnel as part of annual monitoring reports submitted to IFC, including relevant root cause assessments and corrective actions taken by the company. Lost time injury (LTI) frequency rates reported by the company annually included LTIs involving contract workers and were consistently below international industrial benchmarks.

### **Systemic Actions**

163. Management acknowledges that the project would have benefited from a social specialist as part of the IFC team both at appraisal and during supervision, especially during the critical events of 2011–2013. Based its own internal project reviews and feedback from CAO, IFC has improved this practice across all projects over the past decade. An external labor consultant was hired to support IFC's project team between 2015 and 2017, and a social specialist based in the region was assigned to the project from January 2018 onwards.

164. IFC developed guidance for E&S specialists and tools for screening contextual risks affecting projects during appraisal and supervision as part of systemic improvements undertaken from 2017. These tools have strengthened IFC's review of and response to contextual elements that may affect projects' E&S performance and would have been important resources in assessing the potential impacts of the broader socio-economic and political contexts had they been available at the time.

165. Building on lessons learned from projects, IFC has developed guidance available to specialists and clients undertaking the review of project security arrangements with respect to PS4. IFC's *Good Practice Handbook on Use of Security Forces* was published in 2017 and a number of relevant trainings have been delivered to IFC E&S specialists and externally since then.

166. Management acknowledges that legacy issues, such as prior retrenchment, represent a reputational risk that requires assessment as part of the pre-investment review. Since 2010 practice has evolved to ensure adequate review, including the revision of the PS2 in 2012,

improved contextual risk and reputational risk screening, enhancement of project teams with more consistent assignment of social specialists, availability of external labor experts on retainer contracts, and training of specialists, based on the Performance Standard 2 Handbook for Labor and Working Conditions and experiences gained through the implementation of PS2 (2012).

### 3.4 SUMMARY OF CAO OBSERVATIONS ON IFC'S EXIT FROM THE PROJECT

- CAO observes that in structuring the terms of sale of IFC's shares in its three investments with the Titan Group including ADL back to TCI, IFC maintains an ongoing financial exposure to the Titan Group absent any environmental or social covenants. CAO holds that IFC systems classify such receivable as a loan. While CAO observes that the TCI receivable is not disclosed as a project on IFC's external project information portal, it appears in IFC's internal system as an "Active" project under supervision in the "Investment" category.
- CAO agrees with IFC's conclusion that the proper application of the Sustainability Policy to IFC's ongoing receivable exposure to the Titan Group is not well defined. However, it concludes that "IFC's continued financial exposure to TCI outside the framework of the Performance Standards may be inconsistent with the intent of the Sustainability Policy." CAO notes that this "debt obligation was created as part of IFC's exit from its engagement with the client, in circumstances where there remained ongoing and unresolved environmental and social impacts and finds that IFC diminished its own leverage to engage with the client on these impacts."

#### 3.4.1 IFC Response: Observations Related to IFC's Exit from the Project

167. Management does not share the view of the CAO that the sale of IFC's shares in ADL to TCI created a "financial exposure" during the period of time in which the receivable was outstanding that required application of the Performance Standards or that the Performance Standards should apply as a result of a receivable issued in payment for shares in order to be consistent with the intent of the Sustainability Policy. Neither the terms of the Sustainability Policy nor its purposes contemplate the application of the Policy to a receivable transaction pursuant to which IFC exits an investment by share sale.

- (i) The Sustainability Policy provides that the Performance Standards apply where there is both (i) a *financing* and (ii) the financing applies to a *client's business activities*. A "client" is the legal entity to which IFC provides its "Investment Services," namely, "projects ... for the purpose of raising financing from third party financial institutions." Financing is the provision of (or agreement to provide)<sup>15</sup> funding in the expectation of a financial return. IFC provides its financing through approved investment products. The Sustainability Policy provides examples of IFC's investment products, including short-term loans, guarantees and trade finance products.<sup>16</sup> In this case there was neither financing nor any client business and the receivable was payable (and ultimately paid) by the purchaser of the shares and not by the client.

<sup>15</sup> For example, a guarantee or risk sharing facility.

<sup>16</sup> *Sustainability Policy*, paragraph 3

- (ii) A financing must be distinguished from other economic transactions, such as the sale of an asset, such as shares. In an asset sale, the transaction is an exchange of one asset (shares) for another (receivable or cash). Unlike a financing, in an asset sale, there is no provision of funding or agreement to provide future funding by the seller. Both an asset sale and a financing could create a “receivable”. But the receivable is not determinative of the existence of a financing. Receivables are created in many types of business transactions—including asset sales—that are not financing transactions.
- (iii) In the sale of IFC’s shares, there was no agreement to provide funding, no financial return commensurate with financing costs and risk, and no process undertaken within IFC indicative of a credit decision. In an IFC loan financing, IFC identifies specific development outcomes that are facilitated by the financing and designs a financing that furthers a client’s business objectives consistent with IFC’s strategy and the identified development outcomes. None of those considerations are present in an exit by share sale transaction, especially where the issuer of the receivable is not the client and where the transaction is designed to exit an investment, not to finance or facilitate a developmental objective or a client’s business.<sup>17</sup> The appearance of the receivable in IFC’s internal systems as a “loan” is a matter of internal systems nomenclature and does not imply that IFC had undertaken a financing. As a matter of convenience and efficiency, IFC uses the same internal management system to track its sale receivables as its loan investments. IFC does not have a separate system for tracking and managing sale receivables. As the CAO report mentions, other than the administrative tracking mechanic, IFC had not in any way treated the asset sale receivable and the sale transaction as a project. In terms of IFC’s accounting systems, the asset sale receivable was treated as a receivable.
- (iv) IFC’s sale resulted in its complete exit from the financing of ADL from the time of transfer of title to the shares and the derecognition of the shares as an asset in IFC’s accounts (per GAAP). From that time, IFC was no longer financing a project and ADL was no longer a client.<sup>18</sup> IFC’s arrangement with TCI was to execute a sale. IFC’s sale transaction was with TCI (and not with TCE nor APCC), and TCI was never a client as it never received financing from IFC nor was an investee company. The transaction itself was never an investment project.

168. We note that the CAO will consider these arrangements in the context of its work on responsible exit through its advisory function and welcome their contributions in this regard. Management is in the process of reviewing its investment operations policies and procedures as they relate to aspects of exit, and identifying opportunities for procedural enhancements in considering environmental and social impacts when IFC seeks to proactively exit investments.

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<sup>17</sup> The issue of the application of the Sustainability Policy to share sales exit transactions is entirely different from the concept of “responsible exit” which is discussed below.

<sup>18</sup> A project is a “discrete unit of work associated with provision of Financial Product or Service to a Client”, <https://dgc.worldbank.org/asset/66af96f5-6b60-4a86-9ecd-80326106a695>

## 4. LESSONS LEARNED AND ACTIONS

### 4.1 LESSONS LEARNED

169. IFC seeks to continuously refine and broaden its Environmental and Social Management practices and to translate these in updated procedures and guidance materials where relevant, based on insights and lessons drawn from project experience. This section lists the key lessons learned from issues raised by the APCC project and the complaint. Some of these issues have already been translated into changes to IFC E&S procedures and guidance that came into effect since the TCE appraisal was undertaken (2009) and supervision commenced (2011). Others will require new revisions to IFC procedures, as noted below.

170. **E&S appraisal documentation:** In the case of TCE, certain documents reviewed at appraisal in 2009 could not be located at the time the CAO started drafting its report. Such gaps in documentation undermine the validity of project appraisal findings. A key lesson learned from the APCC complaint is to underscore the importance of retaining all documents that inform appraisal findings and decisions. IFC has improved and expanded its information management protocols to ensure that a complete record of material developments is retained. In the decade since the TCE appraisal was conducted, IFC has issued additional guidance on what types of primary source materials reviewed at appraisal should be retained and/or publicly disclosed.

171. **Improved E&S contextual risk assessment process:** Building on project experience and observations from several CAO assessments, IFC developed guidance and tools for E&S specialists to screen contextual risks of projects during appraisal and supervision, as part of a tip sheet developed in 2017. In December 2019 IFC developed and launched an internal Guidance Practice Note “*Contextual Risk Screening for Projects, Linking National-Level Risks to the Local Project Site in FCV and High-Risk Contexts and Beyond.*” These tools have strengthened IFC’s review of and response to contextual elements that may affect projects’ E&S performance. Contextual risk screening is now mainstreamed in all pre-investment reviews by IFC E&S specialists. The ESRP is being updated to reflect evolution and improvements in practice and to reflect other organizational and procedural changes. The revised ESRP will include procedures for contextual risk assessment.

172. **Emissions Guidelines:** The project was appraised against the 2007 WBG EHS Guidelines for Cement and Lime Manufacturing. Since then, IFC has continued to work with its stakeholders on incorporating lessons learned, including from the investment in ADL, in order to update the technical reference to GIIP in terms of particulate matter controls. Lessons learned on limitations of ESPs vs more reliable bag filters were instrumental in IFC’s decision to update the reference to GIIP in the latest revision of the EHS Guidelines for the sector, which was published for second public consultation in 2018.

173. **Stakeholder engagement, including grievance mechanism:** In the decade since the APCC plant was appraised, IFC has broadened and deepened its requirements for clients’ efforts to engage, inform and enable feedback from all its stakeholders. APCC shared examples of its efforts to engage with Wadi Al-Qamar residents as well as the mechanisms it had set up to enable residents to register concerns about plant operations. A key lesson learned is that while such

efforts may meet some of the objectives of stakeholder engagement, they do not amount to a formal community engagement and grievance handling procedure as required by PS1. The development of a written engagement plan, tailored to the specific issues of concern to project stakeholders, is essential to responding to grievances, managing expectations and establishing trust between a client and its stakeholders.

174. **Strengthening project teams with social specialists:** Another CAO observation is that the project would have benefited from having a social specialist as part of the IFC team both at appraisal and during supervision, especially during the critical events of 2011–2013. In the decade since the appraisal took place IFC has improved this practice across all projects, based on its own internal project reviews and feedback from CAO. An external labor consultant was hired to support IFC’s project team between 2015 and 2017, and a social specialist based in the region was assigned to the project from January 2018 onwards. An important lesson from the APCC complaint is that where a project’s socioeconomic context changes dramatically during the supervision phase of IFC’s investment, the ESG department should revisit project staffing and include relevant, specific expertise. The revised ESRP will include (i) specific procedures for project staffing and (ii) criteria to trigger an enhanced monitoring effort by IFC of its client.

175. **Security assessment:** In response to CAO’s observation that IFC did not review the plant’s security aspects during the 2009 appraisal, IFC noted that detailed guidance for staff and clients was not available at the time. An important lesson of the APCC complaint is that an assessment of security concerns should not only be undertaken for projects where security risks are evident at appraisal. Over the past decade, in direct response to CAO observations on other complaints, IFC has developed detailed guidance on assessing security situations. In 2017, IFC published a *Good Practice Handbook on Use of Security Forces: Assessing and Managing Risks and Impacts* and several relevant trainings have been delivered to IFC E&S specialists and externally since then.

176. **Legacy retrenchment:** Management acknowledges that legacy issues, such as prior retrenchment, represent a reputational risk that requires assessment as part of the pre-investment review. Since 2010 practice has evolved to ensure adequate review, including the revision of PS2 in 2012, improved contextual risk and reputational risk screening, enhancement of project teams with more consistent assignment of social specialists, availability of external labor experts on retainer contracts, and training of specialists, based on the Performance Standard 2 Handbook for Labor and Working Conditions and experiences gained through the implementation of PS2 (2012).

#### 4.2 MANAGEMENT ACTION PLAN IN RESPONSE TO CAO REPORT

177. IFC has discussed with the company specific actions that could be undertaken by either IFC, APCC or both parties to continue to address the complainants’ concerns, as per Table 1 below.

178. Titan has indicated that it is committed to maintaining the positive relations it has established with its stakeholders, but it will not be able to substantively respond to the proposed actions until the CAO report and the IFC management response are published and it has had the opportunity

to review both documents. As a result, the Action Plan below is to be confirmed with APCC, and Titan Group reserves the right to re-assess it, when the CAO Investigation Report and IFC Management Response are issued.

179. IFC will submit annual progress reports to the Board to provide an update on progress made against its commitments per the Action Plan, which CAO will take into consideration in their monitoring.

180. It should be noted that as IFC has exited the investment that is the subject of the complaint, it no longer has an agreed ESAP or contractual covenants with APCC that are relevant to compliance with IFC's Performance Standards.

**TABLE 1. MANAGEMENT ACTION PLAN**

ACTION	RELATED ACTIVITIES AND TIMELINE
<b>PROJECT LEVEL</b>	
<b>Disclosure of Information</b>	<p>IFC will disclose on its website available E&amp;S assessment documentation referenced in the 2009 Environmental and Social Review Summary (ESRS), including the 2002 EIA and, in summary form, the CO<sub>2</sub> emissions audit.</p> <p><i>Timeline: IFC will make this disclosure no later than one month after the publication of IFC's Management Response.</i></p>
<b>Disclosure of Information and Community Engagement</b>	<p>IFC will propose that TCE disclose an environmental performance report explaining the actions undertaken in the past 10 years to abate, control and monitor environmental emissions at APCC. If TCE agrees to this disclosure, the report will present the results of its own environmental monitoring.</p> <p><i>Timeline: IFC to propose this to TCE no later than one month after the publication of IFC's Management Response. If agreed by TCE, the timeline for such disclosure will be mutually agreed with TCE.</i></p>
<b>Noise</b>	<p>IFC will propose that TCE continue the work started on the identification and assessment of the noise sources.</p> <p><i>Timeline: IFC to propose this to TCE no later than one month after the publication of IFC's Management Response. If agreed by TCE, the timeline for this work will be mutually agreed with TCE.</i></p>
<b>Community Engagement Plan and Community Grievance Mechanism</b>	<p>IFC will propose that TCE document its community engagement and grievance management procedures, in alignment with corporate standards and the international standards Titan Group is adhering to.</p> <p><i>Timeline: IFC to propose this to TCE no later than one month after the publication of IFC's Management Response. If agreed by TCE, the timeline for this work will be mutually agreed with TCE.</i></p>
<b>Security Risk Assessment and Security Management</b>	<p>IFC will propose that TCE document its security management procedures, in alignment with corporate standards and the international standards Titan Group is adhering to.</p> <p><i>Timeline: IFC to propose this to TCE no later than one month after the publication of IFC's Management Response. If agreed by TCE, the timeline for this work will be mutually agreed with TCE.</i></p>
<b>SYSTEMIC LEVEL</b>	
<b>General ESRP improvements</b>	<p>IFC's ESRP is currently being updated to reflect both evolution and improvements in practice, as well as organizational and procedural changes associated with the creation (effective July 1, 2019) of the E&amp;S Policy and Risk Department. The revised ESRP will include specific procedures for (i) project staffing at appraisal and supervision, (ii) contextual risk assessment, and (iii) supervision criteria for high risk projects.</p> <p><i>Timeline: The IFC updated ESRP will become effective by end FY22 Q1.</i></p>

## 5. CONCLUSION

181. Management acknowledges CAO's observations and the concerns discussed in the CAO report. The unprecedented macro level events that coincided with IFC's investment, and the impacts these events had on the country's political and socioeconomic fabric, the cement sector, and IFC's client are notable. IFC's experience in this investment highlights many of the risks and complexities inherent in fragile and conflict-affected situations and the interlinked nature of these factors. It offers a number of important lessons, underscoring the benefits of contextual risk assessment, the importance of consultation to confirm community support when the security situation allows and the need to continue strengthening practices to consider legacy issues, location and cumulative impact risks.

182. The lessons of this 2010 investment also serve to demonstrate the many and significant improvements that IFC has made in its E&S risk management approach in the intervening years, and the need to continue to strengthen procedures and practices going forward. Management believes that the Action Plan contained in this Response is an appropriate means of responding to CAO's observations and, subject to its finalization in consultation with TCE upon publication of the CAO Compliance Investigation report and this IFC's Management Response, is committed to its implementation in a timely manner.

## ANNEX 1. SUMMARY OF MANAGEMENT RESPONSES

The following table summarizes IFC Management responses to CAO’s key observations outlined in the table on pages 88–91 of CAO’s Compliance Investigation Report.

NO.	CAO OBSERVATION	IFC RESPONSE WITH ACTIONS TAKEN OR PROPOSED
<b>E&amp;S REVIEW</b>		
1	IFC’s pre-investment review of project environmental impacts was not commensurate to risk in light of the plant’s location in a mixed industrial-residential area with communities in close proximity (Sustainability Policy, para. 13).	<u><i>Project-Level:</i></u> The close proximity of the APCC plant to the Wadi Al-Qamar residential area was identified as a potential issue in the ESRS (“proximity of residential areas to the plant’s southern boundary”), together with several related ongoing actions from the company to mitigate E&S risks to the communities. Management concurs with CAO that there was a risk due to the presence of the community of Wadi Al-Qamar in a large industrial area and in close proximity to several industrial plants in addition to APCC. Since commitment, several actions to improve environmental performance have been successfully completed by APCC in compliance with IFC’s PS requirements.
2	IFC did not assure itself that the client’s E&S assessment considered potential cumulative impacts on air quality, human health and noise from existing projects and conditions, including numerous pollution sources in the project area (PS1, para. 5).	<u><i>Project-Level:</i></u> APCC’s E&S assessment at the time of appraisal (including the EIA prepared in 2002 for Blue Circle) did not include a cumulative impact assessment on air quality, human health and noise from other existing sources in the project area, and IFC did not request TCE to carry out such an assessment. IFC did not consider one to be necessary, as the project did not increase APCC’s footprint and production capacity, and as the use of IFC’s proceeds included several environmental enhancements. The project was expected to result in a net improvement in ambient air quality and noise levels, and there were no cumulative impacts expected from further planned development of the project or other project-related developments that were realistically defined at that time. Management acknowledges that without a specific assessment by APCC, IFC was not able to collect quantitative evidence that the project would not increase or reduce the overall direct impact on air quality and noise. However, during supervision IFC requested the preparation of additional air emissions and noise studies.  <u><i>Systemic:</i></u> Since the time of the project appraisal, IFC has strengthened its practice in terms of review and

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		<p>assessment of cumulative impacts, as reflected in the Guidance Note 1 of the Performance Standard 1 (2012) and in the publication of the <i>Good Practice Handbook on Cumulative Impact Assessment and Management (2013)</i>. Consideration of cumulative impact risk (and contextual risk screening) is now mainstreamed in all pre-investment reviews by IFC E&amp;S specialists.</p>
3	<p>Available documentation did not allow CAO to confirm that IFC conducted an adequate review of the client’s E&amp;S assessment, including ensuring that the assessment presented an “adequate, accurate and objective evaluation” of the E&amp;S issues based on recent information (PS1, paras. 7, 8).</p>	<p><b><u>Project-Level:</u></b> IFC’s environmental due diligence of APCC could have been better documented. Certain documents reviewed at appraisal (for instance, the 2002 EIA) had not been located when CAO started drafting its report, although they were subsequently located and provided to CAO prior to the completion of the investigation report.</p> <p><b><u>Systemic:</u></b> Gaps in documentation undermine the validity of project appraisal findings. A key lesson learned from the APCC complaint is to underscore the importance of retaining all documents that inform appraisal findings and decisions. IFC has improved and expanded its information management protocols to ensure that a complete record of material developments is retained. In the decade since the TCE appraisal was conducted, IFC has issued additional guidance on what types of primary source materials reviewed at appraisal should be retained and/or publicly disclosed.</p>
4	<p>Further, IFC did not ensure that the client ESAP reflected outcomes of consultation with affected communities, that it described actions necessary to reach air emissions targets, or that the client would report externally on implementation (PS1, para. 16).</p>	<p><b><u>Project-Level:</u></b> Management points out that IFC publicly disclosed the actions necessary for the client to reach air emissions targets. The ESRS dated November 10, 2009 states that “<i>Emissions are monitored daily and submitted online to the Egyptian authorities; current particulate emissions average approximately 128 mg/Nm<sup>3</sup>, which is within the Egyptian regulatory limit but exceeds IFC guidelines. The Company is in the process of upgrading the Electrostatic Precipitator (ESP) for the kiln to reduce particulate emissions. The Company has agreed to undertake measures (e.g., enhanced maintenance of ESPs or installation of supplemental controls) to ensure that the emissions are reduced to ≤100 mg/Nm<sup>3</sup> within a timeframe agreed with IFC (Action Plan item 2c). Recent air monitoring results showed NOx emissions at 448 mg/Nm<sup>3</sup>, which meets both Egyptian standards and IFC guidelines. SO<sub>2</sub> emissions are negligible.</i>” Correspondingly, the</p>

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		<p>following action is listed in the ESAP dated November 10, 2009, <i>“Implement additional control measures at APCC to ensure that average annual particulate emissions are reduced to <math>\leq 100\text{mg}/\text{Nm}^3</math> with a timeframe agreed with IFC.”</i></p> <p>In 2012 and 2015 IFC updated and redisclosed the ESAP to require specific actions by the client on both stack emission and fugitive emission abatement and control. The amended ESAPs were informed by the site visits and data review, recognized APCC’s location in an area where ambient air quality monitoring would not reflect the contributions of a single plant, and accounted for the fuel switch due to the energy/fuel situation in the country. The updated ESAP required APCC to make emission control data available to stakeholders by disclosing emissions data on APCC’s web-portal. APCC has posted average emissions quarterly on the company’s web site since July 2016, albeit with a delay from the original deadline of 2013. Management agrees that IFC could have required APCC to continue engaging with, and report to, the community by including this as an item in the updated 2015 ESAP.</p>
<b>PLANT LICENSING</b>		
5	<p>Although IFC was aware of complainant concerns regarding the client’s licensing status and related media coverage, IFC’s supervision did not provide assurance that the client was complying with national licensing requirements (PS, para. 3; PS1, para. 4). Instead, IFC relied on client assurances that permit and license requirements were being met.</p>	<p><u>Project-Level:</u> Management considers that IFC adequately supervised and documented that the client possessed the required national license and environmental permits. IFC’s pre-investment due diligence ascertained the existence of the required licenses prior to IFC disbursement. The company had valid operational licenses from 2005 to date, including the Industrial Development Authority “merged license” and “industrial register” licenses, which were shared with the CAO as part of the information provided by IFC prior to the finalization of the CAO report.</p> <p>IFC was aware that in 2012 legal action was filed seeking the abolition of the administrative decision of the Egyptian authority that issued the operating license for the APCC plant in Alexandria, alleging violations of environmental and related regulation. In 2018 the court rejected the case and decided this issue in favor of APCC.</p>
<b>POINT SOURCE EMISSIONS</b>		

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6	<p>IFC’s E&amp;S review of the client’s contribution to local air pollution was not commensurate to risk in light of APCC’s performance and location. Although an ambient air quality assessment was required to determine whether airshed was “degraded” and to define appropriate mitigation measures (WBG EHS Guidelines), IFC did not ensure its client carried out such an assessment. During supervision, the client’s recorded emissions of pollutants with negative health impacts regularly exceeded WBG and national standards. IFC engaged with the client to follow up on agreed corrective actions. However, persistent delays in implementing pollution control measures have prolonged impacts on the local community from nuisance dust and cumulative health effects associated with air pollution. To date, IFC has not demonstrated that the client’s methods of monitoring and reporting point source emissions are consistent with IFC requirements.</p>	<p><u>Project-Level:</u> Between the time of IFC’s commitment in 2010 to its exit in 2019, all agreed ESAP actions related to both point source emission control and fugitive dust control (discussed below) had been completed.</p> <p>Portion of IFC’s investment going to APCC was to enable process improvements and debottlenecking and reduce point source air emissions from the plant, which would result in a net improvement in ambient air quality. As such, at appraisal IFC did not require an assessment by the client to determine if the airshed was degraded. IFC anticipated some point source exceedances at appraisal, as stated in the ESRS, and included a corresponding action in the ESAP.</p> <p>During supervision, the IFC project team and IFC management regularly engaged with the company to follow up on agreed corrective actions and alignment with the performance values included in the WBG EHS Guidelines for the cement manufacturing sector. Where deviations occurred, IFC worked with APCC to address the situation and prevent further emissions events, applying the necessary pollution prevention and control techniques referenced in WBG EHS Guidelines. Management therefore holds that IFC adequately supervised the project’s point source emission performance and worked with the client to reduce point stack emissions to meet WBG guideline values. At the time of IFC’s exit, stack emissions of particulate matter, NO<sub>x</sub> and SO<sub>2</sub> were in compliance with national standards and within the WBG guideline performance levels.</p> <p><u>Systemic:</u> Management also wishes to highlight that since the time the project was appraised against the 2007 WBG EHS Guidelines for Cement and Lime Manufacturing, IFC has continued to work with its stakeholders on incorporating lessons learned from projects, including the investment in ADL, and update the technical reference to good international industry practice (GIIP) in terms of particulate matter controls. Lessons learned on limitations of ESPs vs more reliable bag filters were instrumental in IFC’s decision to update the reference to GIIP in the latest revision of the EHS Guidelines for the sector, which was published for second public consultation in 2018.</p>

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	<b>FUGITIVE DUST EMISSIONS</b>	
7	<p>At appraisal, IFC recognized fugitive dust from the plant as having the potential for serious environmental impact on nearby communities, and secured ESAP commitments from its client to assess, mitigate and monitor performance in relation to dust emissions. In the early stages of supervision IFC agreed that the client did not need to assess its own contribution to ambient dust in the project area. Instead it was agreed that the client would implement stricter dust control measures. However, client actions to retrofit dust control measures were regularly delayed. Ambient dust was recorded from 2015 to 2019. To date, fugitive dust control remains a problem and IFC has not been effective in ensuring that the client is implementing good housekeeping practices for dust suppression in accordance with IFC requirements (Cement EHS Guidelines).</p>	<p><u>Project-Level:</u> Fugitive dust control had been identified as both an E&amp;S and technical issue during the pre-investment appraisal and had been subject to an aggressive control program launched by TCE. Because TCE already had a program in place to address fugitive dust emissions, the original ESAP did not include this as an action item; however, fugitive dust control was subsequently added to the updated 2012 ESAP. APCC plant agreed to develop a raw material handling plan to require that all materials be covered or secured to minimize fugitive dust emissions, with a budget and initial completion date of 2014. All agreed actions from the updated 2012 and 2015 ESAPs to improve fugitive dust control were completed at the time of IFC's exit.</p> <p>The company regularly monitored ambient air dust (TSP and PM10) concentrations at four different locations throughout the plant. Ambient dust concentrations have decreased since 2016 and are within national limits.</p>
	<b>TRANSITION TO SOLID FUEL</b>	
8	<p>IFC did not supervise the client's transition to solid fuel in accordance with PS requirements. In particular, IFC did not document its review of the client's draft EIAs for solid fuel and did not ensure that its client assessed the potential effects of transition in accordance with the Performance Standards.</p>	<p><u>Project-Level:</u> Management holds that IFC was compliant in relation to supervision obligations and that, as observed by CAO, it took steps to ensure that the client addressed fugitive dust from the use of solid fuel and had monitored the client's implementation. IFC worked extensively with APCC to address potential adverse environmental impacts of the government-mandated transition to solid fuel (and also use of alternative fuels). This was demonstrated by the additional action included in the 2015 update of the ESAP and that related to addressing fugitive dust from</p>

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		<p>the use of solid fuel. As part of the process, and to meet ESAP requirements, APCC constructed two covered storages (daily storage and main storage) for raw solid fuels, which are both operational.</p>
<b>ODOR, NOISE AND VIBRATIONS</b>		
9	<p>IFC did not ensure that the client assessed the impacts from noise and vibration in accordance with its EHS Guidelines. IFC has not required its client to take necessary steps to minimize or control noise from the plant, or to monitor or assess impacts from vibration in accordance with PS3, para. 9. In relation to odor, IFC gave clear remedial instructions to the client. However, IFC has not ensured that the client consulted with affected community members in relation to noise, vibration or odor as required by PS1, para. 30.</p>	<p><u><i>Project-Level:</i></u> As part of the pre-investment review, IFC did not require the client to assess potential impacts from noise and vibrations through specific studies. Management agrees that IFC could have taken further action to ensure that the client carried out adequate analyses and that the significance of noise and vibration impacts was made known to stakeholders. Management points out that elements of the process improvements and debottlenecking for which IFC's investment in APCC was targeted (for example, cladding and covering the conveyor and relocating the storage area) were also expected to result in a decrease in noise levels.</p> <p>During supervision several actions to assess and monitor sound levels had been implemented since noise-related issues were raised in the 2015 complaint to CAO. A qualified consultant was engaged by the company to carry out background noise measurements both during the plant shutdown in August 2017 and while the plant was operating in September 2017. As part of the actions agreed in January 2018, APCC agreed to hire a specialized consultant to carry out a noise modeling study for which IFC provided guidance in defining the scope of work. This further study was not completed by the client at the time of IFC's exit.</p>
<b>COMMUNITY ENGAGEMENT</b>		
10	<p>CAO finds that IFC's appraisal and supervision of community engagement issues fell short of relevant requirements for disclosure of project E&amp;S information, reporting on implementation of corrective actions, consultation with affected communities, and security risk management.</p>	<p><u><i>Project-Level:</i></u> Management is of the view that IFC raised community engagement issues with TCE during appraisal, annually throughout supervision, and in follow up communication with the client on the part of the project team and IFC management, on an ongoing basis.</p> <p>Management holds that, during supervision, IFC complied with its policy obligations and provided guidance to APCC to improve its disclosure of project E&amp;S information, its community engagement efforts, and security management. Management is also of the view that IFC's supervision was proactive in identifying</p>

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		<p>areas of improvement with the objective of assuring itself that the client was conducting disclosure of E&amp;S information, effective consultation, and security management.</p> <p><u>Systemic:</u> Management acknowledges that the project would have benefited from a social specialist as part of the IFC team both at appraisal and during supervision, especially during the critical events of 2011–2013. Based its own internal project reviews and feedback from CAO, IFC has improved this practice across all projects over the past decade. An external labor consultant was hired to support IFC’s project team between 2015 and 2017, and a social specialist based in the region was assigned to the project from January 2018 onwards.</p>
11	<p><b>Disclosure of Information:</b></p> <p>IFC’s initial disclosure of project information and its review of client disclosure was insufficient. In particular, IFC did not disclose relevant E&amp;S Assessment documentation reviewed as part of its E&amp;S due diligence as required by the Access to Information Policy (para. 13(a)). IFC’s ESRS notes that the client reported that it held public meetings but IFC documentation does not indicate any review of the client’s public disclosure practices in connection with, or independent of those meetings. As a result, CAO finds that IFC lacked assurance that the client’s public disclosure practices met the requirements of PS1 (para. 20) at the time of investment. Through IFC supervision, client disclosure of its air emissions improved, albeit with significant delays. To date, however, CAO finds no indication that IFC is</p>	<p><u>Project-Level:</u> In compliance with the policy, IFC did publicly disclose the ESAP, including the actions necessary to reach air emissions targets, which would therefore have been available to local communities. Under IFC’s supervision, APCC made significant progress in its reporting of air emissions. Improvements are reflected, for example, in the 2016–2019 APCC Dust Emissions and Water Consumption quarterly data published on the client’s website. Management agrees that certain documents reviewed by IFC at appraisal and referenced in the 2009 ESRS (such as the 2002 EIA for the construction of Kiln 5, prepared for Blue Circle) were not publicly disclosed. At the time of appraisal, the kiln was operational for seven years. IFC considered the documents of limited quality and outdated, and not relevant to the proposed investment. Management maintains that IFC was not required to make available electronic copies of such environmental impact assessment prepared by a previous operator of the APCC plant. Nonetheless, IFC will disclose the EIA and, in summary form, the CO<sub>2</sub> emissions audit.</p> <p>Management further agrees that IFC could have considered an inclusion of an ESAP item on the disclosure of environmental performance data in a format that would enable local communities to easily ascertain whether the company is complying with WBG guidelines and Egyptian regulations. This would have allowed IFC to assure itself that APCC would continue to engage with, and report to the community</p>

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	<p>supporting its client to report regularly to affected communities on other aspects of its environmental performance or mitigation actions consistent with PS1 (para. 26).</p>	<p>Management believes that IFC’s consistent supervision of the investment, on the part of both the project team and IFC management, has led to material improvements in APCC’s information disclosure practices, such as quarterly disclosure of air emissions data on its website, and preparation and disclosure of annual CSR and Sustainability Reports in accordance with widely accepted international standards (Global Reporting Initiative, GRI), which include relevant environmental and social performance indicators.</p> <p>Management recognizes, however, that APCC’s information disclosure practices would nonetheless benefit from further improvements by it, particularly preparing and communicating an environmental performance report in a format that is accessible to the affected community.</p>
<p>12</p>	<p><b>Consultation:</b>                      IFC’s pre-investment review did not document client consultation with affected communities (PS1, paras. 21–22). Although the project presented significant adverse impacts on affected communities living in close proximity to the plant, IFC did not assure itself that there was broad community support for the project (Sustainability Policy, para.15). IFC’s supervision did not provide assurance that the client was conducting effective consultation (PS1, para. 21).<sup>174</sup> When conflict between APCC and the local community escalated, IFC did not review the client’s track record of consultation or advise the client on how to address critical E&amp;S issues through community engagement.<sup>175</sup> Despite indications that the client’s approach to consultation was not consistent with PS1</p>	<p><u><i>Project-Level:</i></u> Management is of the view that IFC raised community engagement issues with TCE during appraisal, annually throughout supervision and in follow-up communication with the client on the part of the project team and IFC management, on an ongoing basis.</p> <p>At the time of IFC’s investment, IFC had a general practice of assigning E&amp;S category B to brownfield projects like this one with no land take, no facility expansion and no new emission sources. In accordance with this practice, IFC categorized this project as Category B. As a result, it did not undertake Broad Community Support (BCS), in accordance with its practices. In hindsight, Management agrees that given potentially significant air pollutant emissions of the existing facility, its proximity to the local community of Wadi Al-Qamar and cumulative impact risks, this could have been an E&amp;S category A project and IFC could have evaluated the project’s BCS.</p> <p>At appraisal, IFC’s understanding was that the client was holding regular meetings with nearby communities and had established a long-term strategy that included expanding its commitment to Stakeholder Forums. IFC acknowledges that there was no documentation in IFC’s or TCE’s archived files to demonstrate implementation and outcomes of such engagement.</p>

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	<p>requirements, IFC did not flag this as a compliance issue, nor did IFC support the client to develop an approach to community consultation that reflected the requirements of PS1 (Sustainability Policy, para. 26).</p>	<p>Management acknowledges that, during appraisal, IFC could have independently sought the community's views regarding risks and adverse impacts of plant's operations at the time of IFC's investment, as well as on the actions being undertaken by the company to mitigate these risks and impacts, and could have included ongoing community consultation as a specific commitment in the ESAP disclosed with the ESRS prior to investment.</p> <p>Management holds that, during supervision, IFC complied with its policy obligations and provided guidance to APCC to improve its community engagement efforts. Management is also of the view that IFC's supervision was proactive in identifying areas of improvement with the objective of assuring itself that the client was conducting effective consultation.</p> <p>While APCC's continued commitment, since 2014, by contracting SCD helped strengthen communication channels and establish positive relations with the Wadi Al-Qamar community, the company's community engagement approach remained focused on CSR, rather than systematically addressing community concerns related to potential adverse impacts and environmental performance of the plant. Management recognizes that the company's approach did not fully meet the requirements of PS1 for stakeholder engagement.</p> <p>Developing a formal community engagement procedure and grievance mechanism was not included in the original ESAP, nor in the revised 2012 and 2015 versions. A supplemental action was agreed with the client in January 2018 and included establishment of a formal community communication plan and grievance mechanism and the hiring of a Communication Manager responsible for implementing the plan.</p>
<p><b>13</b></p>	<p><b>Grievance Handling:</b> IFC's pre-investment review did not adequately consider requirements to establish a structured complaints mechanism or to assess and manage security risk (PS1 and PS4).</p>	<p><u>Project-Level:</u> Management notes that at the time of the investment, accepted practice was for IFC to assure itself that a channel of communication was both available and made known to residents, local government officials, and other stakeholders. At appraisal APCC confirmed to IFC that contact information for the APCC Plant Manager and EHS Officer were posted at the gate to the plant, provided to key municipal and community leaders, and included on</p>

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	<p>While IFC has recommended that the client formalize its approach to community complaint handling, to date IFC lacks assurance that the client has a functioning grievance mechanism (PS1 para. 23).</p>	<p>documents prepared for community meetings and circulated to residents. The company shared with IFC examples of recent communications from residents concerned about unexplained noise and how these had been handled, copies of which were unfortunately not retained by IFC's project team.</p> <p>Management concurs, however, that APCC's practice did not amount to a formal grievance handling procedure as required by PS1 and agrees that, at appraisal, a requirement to establish a formal, written and adequately publicized stakeholder grievance mechanism was not included in the ESAP disclosed along with the ESRS prior to investment.</p> <p>Management notes that throughout the project supervision period TCE established multiple channels to receive and process grievances related to APCC's operations and relevant risks and potential impacts. Management believes that the channels described above allow for submission of complaints, either directly or anonymously. However, APCC implemented an informal grievance policy which fell short of PS1 requirements in terms of documentation and formalization of a grievance mechanism in the company's management system.</p>
14	<p><b>Security:</b> IFC's pre-investment review did not adequately consider requirements to establish a structured complaints mechanism or to assess and manage security risk (PS1 and PS4).</p> <p>IFC reviewed its client's private contracted security arrangements and noted gaps in relation to PS4 requirements following concerns raised by civil society in 2014. To date, however, IFC lacks assurance that the client's approach to security meets PS4 requirements including requirements to assess and</p>	<p><u>Project-Level:</u> While the 2006 version of PS4 included requirements on security, this was not an area where guidance for staff and clients existed at the time. Management therefore recognizes that IFC's review of security arrangements and risks pre-investment could have been more thorough, had such guidance existed. While teams were required to inquire about security arrangements, if in their professional judgment they did not identify any foreseeable risk associated with those arrangements, then a more detailed review, as per current practice in terms of security risk assessment, would not be done. Major security incidents related to the Arab Spring that occurred in 2011 and 2013 (respectively two and four years after appraisal), rendered PS4 security requirements a much greater material risk than was foreseen at the time of appraisal.</p> <p>Management agrees that during the early stages of project's supervision IFC could have undertaken a closer review of the project's performance with respect to security arrangements and risks under PS4</p>

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	<p>mitigate risks associated with the deployment of public and private security personnel. This is of particular concern in the context of a facility where there have been community protests and armed security responses during the period of IFC's investment.</p>	<p>requirements, given the changing contextual risks in the country, and especially given the community protests and violent events that occurred in 2011 and 2013, which necessitated the intervention of the police and armed forces.</p> <p>Subsequently, as part of the supervision and assurance that the client's approach to security met PS4 requirements, IFC reviewed TCE's private security contracts in 2015 and conveyed to its client to include a Code of Conduct for respecting human rights and ensuring that any use of force will be within the law. With the reduced security risk level post-2013, IFC did not request additional risk assessments or management plans from the client. IFC was reassured by the Titan Group Code of Conduct adopted in 2012, which was applicable to the company's contractors and suppliers and highlights the company's commitment to human rights as defined in the Universal Declaration of Human Rights and the International Labour Organization's conventions. Management nonetheless agrees that formalization of a Security Management Plan for APCC, including a grievance mechanism and risk assessment, could have accelerated implementation of these policies.</p> <p><u>Systemic</u>: IFC developed guidance for E&amp;S specialists and tools for screening contextual risks affecting projects during appraisal and supervision as part of systemic improvements undertaken from 2017. These tools have strengthened IFC's review of and response to contextual elements that may affect projects' E&amp;S performance. Contextual risk screening is now mainstreamed in all pre-investment reviews by IFC E&amp;S specialists.</p> <p>Building on lessons learned from projects, IFC has developed guidance available to specialists and clients undertaking the review of project security arrangements with respect to PS4. IFC's <i>Good Practice Handbook on Use of Security Forces</i> was published in 2017 and a number of relevant trainings have been delivered to IFC E&amp;S specialists and externally since then.</p>
	<b>LABOR AND WORKING CONDITIONS</b>	
15	<b>2003 Retrenchment:</b>	<u>Project-Level</u> : The legacy retrenchment that occurred in 2003 preceded Titan Group's operational control of

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	<p>IFC was aware of disputes relating to the client’s 2003 retrenchments at the time of its investments. However, IFC did not identify the retrenchments as a legacy issue and did not explore remediation measures with its client (contrary to Sustainability Policy, para. 13). During project supervision, IFC did not engage its client on the retrenchment issues when the 2003 early retirees began protesting to raise their grievances and did not ensure that its client had in place a grievance mechanism that was appropriate to address these issues (contrary to PS1, para. 23).</p>	<p>APCC (from 2008) and IFC’s investment (in 2010). When APCC carried out VELP efforts in 2002 and 2003, Lafarge was the plant operator, and it was only in 2008, when Lafarge sold its 50 percent JV stake to Titan Group, that Titan became the majority owner of the APCC and BSCC plants.</p> <p>IFC’s appraisal related to assessment of contextual risks and legacy issues was in line with accepted practice at the time. Under the current practice, considerations would have been given to the potential reputational risks associated with legacy retrenchment in 2003. Learning from this experience, IFC worked closely with TCE and APCC during supervision to ensure that the implementation of the VELP in 2016–17 complied with PS2 requirements.</p> <p>Management disagrees with CAO’s observation that IFC did not engage with the client on issues/protests related to the 2003 retirees. The protests at the plant site began around the time of the Arab Spring. Contrary to CAO’s observation, IFC did monitor and discuss the APCC protest issues during supervision. Supervision documents show IFC raised the issues with the client multiple times, particularly related to labor. The IFC project team regularly apprised IFC management on developments related to the protests, and IFC management actively communicated with Titan Group management to underscore the importance of understanding and addressing the concerns that had led to the unrest. Because TCE’s employee grievance mechanism in place at the time was not a channel available to retirees, IFC did not ensure its client had a grievance mechanism in place to address such issues. TCE currently has channels in place for community members, including any retirees, to raise complaints and IFC has worked closely with TCE to formalize these channels.</p> <p><u>Systemic</u>: Management acknowledges that legacy issues, such as prior retrenchment, represent a reputational risk that requires assessment as part of the pre-investment review. Since 2010 practice has evolved to ensure adequate review, including the revision of the PS2 in 2012, improved contextual risk and reputational risk screening, enhancement of project teams with more consistent assignment of social</p>

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		<p>specialists, availability of external labor experts on retainer contracts, and training of specialists, based on the Performance Standard 2 Handbook for Labor and Working Conditions and experiences gained through the implementation of PS2 (2012).</p>
<p><b>16</b></p>	<p><b>Contract workers:</b> IFC’s project due diligence and early supervision did not assess the client’s compliance with PS2 requirements that extend protections for working conditions, freedom of association, and health and safety to non-employee workers, who may include contractors (para. 17). From 2014 onwards, IFC has reviewed the client’s contracts with labor supply companies and has worked with the client to bring some aspects of its engagement with those companies into compliance with PS2, para. 17.</p> <p>However, IFC has not assured itself that the client has used commercially reasonable efforts to require that supply companies apply PS2 requirements relating to freedom of association or worker health and safety.</p>	<p><u><i>Project-Level:</i></u> Management holds that labor practices at APCC were in material compliance with the 2006 Performance Standard 2 (PS2) and good international industry practice and remained compliant at the time of IFC’s exit in 2019. This conclusion was substantively confirmed by an independent labor consultant engaged by IFC between 2015 and 2017 to review the company’s human resources and OHS policies, including policies for managing contract workers.</p> <p>During pre-investment IFC did assess PS2 issues for the workforce of the company, which included contractors. This is demonstrated in the ESRS, which covered specific sections of PS2.</p> <p>IFC effectively monitored PS2 requirements for contract workers through supervision. IFC’s project monitoring included input from an external labor expert from 2014 in relation to labor and OHS conditions and performance at APCC (and BSCC). The company’s progress in implementing the relevant action plan was monitored by IFC during site visits and its review of the company’s AMR. All items in this action plan had been completed at the time of IFC’s exit.</p>
<p><b>17</b></p>	<p>In relation to freedom of association, CAO finds that IFC has not ensured that its client allowed contract workers to express grievances and protect their rights regarding working conditions and terms of employment as required by PS2, paras. 9 and 10. IFC did not consider the country or sector context in relation to labor and working conditions or</p>	<p><u><i>Project-Level:</i></u> Management holds that through its supervision IFC ensured that the company used “reasonable efforts to apply requirements of PS2 with exception of paragraphs 6, 12, and 18” (PS2, paragraph 17) for non-employee workers.</p> <p>IFC also reviewed sample contracts and Titan Group Code of Conduct and satisfied itself that they complied with PS2.</p> <p>The project team did assess the company’s policies on freedom of association and working conditions and described these in the ESRS. IFC met with union</p>

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	<p>freedom of association and did not document any PS2 risks or restrictions on workers' organizations during its due diligence. From 2014, IFC recommended that its client include appropriate freedom of association protections in legal agreements with their contract labor supply companies but has not assured itself that the client has done so.</p>	<p>representatives and monitored APCC's commitment to freedom of association as part of its supervision program. Contextual risks in Egypt changed dramatically as a result of the Arab Spring, and IFC monitored the emerging issues impacting the project.</p> <p>Management is of the view that IFC assured itself that the client allows contract workers to raise grievances in a manner consistent with PS2. TCE developed a formal worker grievance mechanism for both direct and indirect employees that meets PS2 requirements and is accessible through anonymous submission boxes located throughout the plant. IFC verified with contract workers that the grievance mechanism and union representatives are accessible to them. The revised contracts include requirements for the contractor to "provide access to a grievance mechanism, so as employees may communicate with the contractor's management without prejudice to the provisions of laws and national security concerns." During supervision visits, both company HR and contract workers provided IFC with examples of grievances that were raised by contract workers and addressed.</p>
18	<p>In relation to contract workers' safety and health, CAO finds that IFC's early supervision did not adequately consider its client's compliance with the EHS Guidelines. Following complaints from civil society and former workers, IFC identified inadequacies in PPE use and labor supply company oversight. In 2018 and 2019, IFC specifically advised its client to enhance systems for selection and monitoring of labor supply companies, including training of contract workers. At the time of IFC's divestment, however, the client retained contractual provisions that aimed to limit the client's liability for OHS of contract workers, contrary to GIIP. Further, there is no indication</p>	<p><u>Project-Level:</u> IFC assessed and supervised the client's policies and procedures, including OHS guidelines, which apply to everyone at APCC's premises. These guidelines include general instructions for employees and contractors. TCE also references <i>Safety in the Cement Industry: Guidelines for measuring and reporting</i> developed by the Cement Sustainability Initiative of the World Business Council for Sustainable Development. As part of its annual reporting to IFC, the company provided data on workplace monitoring, including levels of compliance with WBG EHS guidelines and Egyptian law, and evidence of workplace air and noise monitoring. IFC verified through supervision that all policies and procedures were applied, and where there were gaps and/or non-compliances, these were raised with the company and corrective actions put in place.</p>

NO.	CAO OBSERVATION	IFC RESPONSE WITH ACTIONS TAKEN OR PROPOSED
	that IFC's recommendations from 2018 and 2019 regarding OHS had been addressed.	

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