

**INTERNATIONAL FINANCE CORPORATION**

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

**CAO COMPLIANCE INVESTIGATION REPORT**

**ON**

**MYANMA AWBA  
MYANMAR – EAST ASIA AND THE PACIFIC**

**(PROJECT No. 35880)**

November 30, 2023

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## ABBREVIATIONS AND ACRONYMS

CAO	Compliance Advisor Ombudsman
CGM	Community Grievance Mechanism
CSO	Civil Society Organization
E&S	Environmental and Social
EHS	Environmental Health and Safety
EIA	Environmental Impact Assessment
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management Systems
ESRP	Environmental and Social Review Procedures
ESRS	Environmental and Social Review Summary
FCS	Fragile and Conflict-Affected State
HAIC	Hmawbi Agricultural Industrial Complex
IDA	International Development Association
IFC	International Finance Corporation
JV	Joint Venture
LESS	Lead Environmental and Social Specialist
MAP	Management Action Plan
MPI	Myanmar Pesticide Industry
MR	Management Report
PS	International Finance Corporation Performance Standards
SEP	Stakeholder Engagement Plan
US\$	United States Dollar
WBG	World Bank Group

## EXECUTIVE SUMMARY

- i. For the past decade, the World Bank Group (WBG) has been a committed partner in supporting Myanmar's transition to democracy and its efforts to achieve broad-based sustainable growth and increased social inclusion. Myanmar is classified as an International Development Association (IDA) country and a Fragile and Conflict-Affected State (FCS). In June 2016, amidst a promising period of democratization and economic liberalization, the International Finance Corporation (IFC) approved a US\$10 million convertible loan to the Myanma Awba Group Company Limited (Awba or the Company; together with its subsidiaries, the Group). This was one of the first IFC investments in Myanmar's agribusiness sector. In December 2016, the entire loan amount was disbursed to the Company in a single tranche.<sup>1</sup>
- ii. Established in 1995 and headquartered in Yangon, the Company is a leading provider of agrochemicals, fertilizers, and seeds in Myanmar. IFC loan proceeds were used to construct a new chemical formulation plant and fertilizer distribution stations, as well as provide for warehouses, equipment, and working capital (Myanma Awba #35880). Before operating the newly built plant, Awba sourced small volumes of agrochemicals from a neighboring, government-owned agrochemical factory, the Myanmar Pesticide Industry (MPI). MPI operated under a Joint Venture (JV) in which Awba's owner held a stake. At the time of the appraisal, MPI was not a part of the investment, with the Environmental and Social Due Diligence (ESDD) only considering MPI a supplier. The integration of the owner's JV stake in MPI into Awba came later, as a condition of disbursement first recommended at the pre-Board Investment Review Meeting.
- iii. Despite significant efforts by IFC to help Awba comply, Awba fell behind in completing the Environmental and Social Action Plan (ESAP) that was agreed with IFC following its ESDD. Contributing factors were insufficient institutional capacity at the Company, increasing contextual risk, and a weak domestic regulatory framework. Awba fully prepaid the IFC loan in March 2021 during the COVID-19 pandemic and just after the February 2021 coup in Myanmar, which ended IFC's direct involvement with the project.
- iv. In October 2017, a complaint was lodged with the Office of the Compliance Advisor Ombudsman (CAO) by a local individual, on behalf of himself and a local group, [REDACTED] (collectively referred to as the Complainants), regarding Awba.<sup>2</sup> The complaint cited concerns with pollution, lack of stakeholder engagement, access to information, and other items related to MPI and the newly planned IFC-financed Awba agrochemical production complex.
- v. CAO found the complaint eligible in November 2017,<sup>3</sup> and the Complainants and the Company engaged in a dispute resolution from 2018 to 2020, which did not lead to an agreement.<sup>4</sup>

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<sup>1</sup> <https://disclosures.ifc.org/project-detail/SII/35880/myanma-awba-group-company-limited>

<sup>2</sup> Filed October 4, 2017. [https://www.cao-ombudsman.org/sites/default/files/downloads/Complaint\\_Myanmar%20Awba\\_ENG.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/Complaint_Myanmar%20Awba_ENG.pdf)

<sup>3</sup> [https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20Assessment%20Report\\_Myanmar%20Awba\\_ENG.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20Assessment%20Report_Myanmar%20Awba_ENG.pdf)

<sup>4</sup> [https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20DR%20Conclusion%20Report\\_Myanmar%20Awba\\_ENG\\_0.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20DR%20Conclusion%20Report_Myanmar%20Awba_ENG_0.pdf)

CAO initiated the compliance investigation in 2020 and submitted the Compliance Investigation Report to the Board in September 2023.

vi. CAO found that IFC ESDD was not commensurate with the level of impacts from both MPI and the new plant, that the Environment and Social Impact Assessment (ESIA) for both plants was inadequate, and that IFC was not able to work with Awba to establish required remediation efforts. CAO further found that during its Supervision, IFC did not ensure Awba compliance related to air and water pollutants from the MPI plant, or Supervision of the project grievance mechanism. It also found that the Client had undertaken insufficient stakeholder engagement, that the project had not identified differential impacts on Indigenous Peoples and that Awba and IFC did not disclose specific ESIA documentation.

vii. CAO examined the potential for harm to the Complainants related to these IFC non-compliance findings. No indications of harm were identified concerning Awba's grievance mechanism. CAO could not establish the likelihood of harm related to water and air pollution non-compliance due to the gaps in baseline and monitoring data (partly attributed to inadequate IFC oversight). CAO found indications of harm related to (i) poor stakeholder engagement, which limited opportunities to provide feedback on project impacts on the Complainants' lives; (ii) lack of disclosure of key environmental and social (E&S) documents, which limited affected people's understanding of project impacts; (iii) non-identification of differential impacts on ethnic minority groups, which may otherwise have led to additional protections; and (iv) limitations in access or damage to roads around the project, the possible scope of which could not be established.

viii. CAO made three project-level recommendations: (i) to assess IFC's influence with key stakeholders; (ii) based on this assessment, to identify actions for IFC to address non-compliance and harm at the project level; and (iii) to publicly disclose the 2018 Supplemental ESIA for the new plant and provide updates on the project ESAP.

ix. Further, CAO made three institutional-level recommendations: (iv) to strengthen internal controls within IFC Management to ensure that, prior to Board approval, E&S risks and impacts and associated mitigation measures, are fully understood in order to determine that the investment activities will be able to meet the relevant IFC Performance Standards (PSs) within a reasonable period of time; (v) to enhance due diligence and monitoring of client capacity and commitment; and (vi) to incorporate lessons learned from this case into IFC's proposed Principles on Responsible Exit.<sup>5</sup>

x. IFC Management appreciates CAO's constructive engagement and the detailed assessment in the CAO Compliance Investigation Report. CAO's findings underscore the significant and rapidly evolving risks of investing in FCS and IDA contexts. Further, for this project, Management believes the main underlying cause for IFC non-compliance was a late stage change of company structure without an associated expansion of the scope of IFC ESDD.

xi. In the development of this Management Report (MR), IFC has followed up on CAO's project-level recommendations as follows:

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<sup>5</sup> <https://www.ifc.org/en/about/accountability/consultation-on-the-proposed-ifc-miga-approach-to-remedial-action>

- Recommendation (i) – Assess IFC’s influence with key stakeholders: IFC has re-engaged with Awba although it is no longer a client. IFC has also examined potential leverage over Awba via IFC’s minority shareholding in Maha Agriculture Public Limited (Maha), a microfinance subsidiary of Awba. This assessment concluded no meaningful leverage exists with the Group. At this time, neither Awba nor IFC are able to engage with the Complainants or their representatives due to the high-risk security situation and the high-risk of reprisal documented by CAO.
- Recommendation (ii) - Based on this assessment, identify actions for IFC to address non-compliance and harm at the project level: Neither IFC nor CAO can visit the site, engage with the Complainants directly, or determine actual harm. IFC cannot engage directly with its former client and considers further engagement a security risk to the Company and its workforce as well as IFC staff. Finally, IFC has no leverage via the subsidiary Maha.
- Recommendation (iii) - Publicly disclose the 2018 ESIA for the new plant and provide updates on the project ESAP: IFC has provided links to Awba’s website, where the documentation is publicly available. The ESAP implementation status based on E&S information available to IFC has been updated.<sup>6</sup>

xii. Concerning CAO’s systemic recommendations, IFC Management’s responses are as follows:

- Recommendation (iv) - Strengthen internal controls within IFC Management to ensure that, prior to Board approval, E&S risks and impacts and associated mitigation measures are fully understood (and) that investment activities will be able to meet relevant IFC PSs within a reasonable period of time: IFC Management recognizes the importance of effective internal controls for E&S risk management. Since the investment in Awba in 2016, internal controls have been greatly strengthened, as reflected in the most recent update of IFC’s revised 2023 Environmental and Social Review Procedures (ESRP), which now capture all likely risks from changes in asset scope during the investment cycle. The revised ESRP and expansion of risk management to include IFC’s Environmental and Social Risk Department for high-risk projects have increased IFC’s oversight and escalation options. In addition to CAO’s analysis of underlying causes of non-compliance that are the basis for systemic recommendations, IFC identifies the change of the Group’s structure at the final stages of due diligence as the root cause for IFC non-compliance. IFC proposes a Management Action Plan (MAP) action to strengthen staff training for managing changes in investment scope and assets and related E&S risks.
- Recommendation (v) - Enhance due diligence and monitoring of client capacity and commitment: Management welcomes CAO’s detailed recommendation on assessing a client’s E&S capacity. Actions related to this recommendation have been implemented, and guidance is available to IFC staff via the ESRP for the project cycle, from ESDD through Supervision to exit.
- Recommendation (vi) – Incorporate lessons learned from this case into IFC’s proposed Principles on Responsible Exit: IFC Management notes that these principles aim to define a decision-making framework for active exits. They are not applicable when IFC is not a decision maker in the exit (passive exits), as in this case, where Awba had complete discretion to prepay its

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<sup>6</sup> <https://disclosures.ifc.org/project-detail/ESRS/35880/myanma-awba-group-company-limited>

debt. Management welcomes continued engagement with CAO on responsible exit, including passive exits. While this recommendation cannot be addressed in a case-specific MAP focused on non-compliance under the current Sustainability Framework, IFC will continue to collaborate with the CAO's Advisory Function on the dissemination and consideration of related knowledge products.

xiii. The Complainants and their representatives cannot engage with IFC amid an ongoing high-risk security context. For the safety of the Complainants, the affected communities, and Awba staff, IFC has not consulted on the proposed MAP with the parties.

## I. INTRODUCTION

1. Established in 1995 and headquartered in Yangon, the Myanmar Awba Group Company Limited (Awba or the Company; together with its subsidiaries, the Group) is a leading provider of agrochemicals, fertilizers, and seeds in Myanmar. Myanmar is classified as a recipient of International Development Association (IDA) support and a Fragile and Conflict-Affected State (FCS). The International Finance Corporation (IFC) invested a convertible C loan in the Company in 2016, which was prepaid in 2021. Development impacts at the time of the investment included addressing food security, raising farmers' livelihoods by increasing their yields through improved practices and use of agricultural inputs.

2. In October 2017, a complaint was lodged with the Office of the Compliance Advisor Ombudsman (CAO) regarding Awba.<sup>7</sup> The complaint alleged environmental damage, lack of road access, human rights issues, and safety incidents harming local wildlife, health, and the local economy.

3. This IFC Management Report (MR) aims to provide a reasoned response to CAO's findings and recommendations regarding non-compliance and related harm. This MR has five sections. Section I is this Introduction. Section II outlines the project, Section III the CAO case, and Section IV presents IFC Management's response to CAO's compliance findings and recommendations. Section V is the Management Action Plan (MAP), and Section VI provides the Conclusion. Annex A presents the Management Action Plan.

## II. THE PROJECT

4. In 2015, the first democratic elections marked a turning point for Myanmar, generating a wave of optimism. The country was transitioning from widespread internal conflict to what it hoped would be a durable peace. During this period, the unification of exchange rates, liberalization of product and factor markets, integration into regional markets, and modernization of economic and financial institutions and systems resulted in rapid economic growth and measurable improvements in social welfare.<sup>8</sup>

5. Amid this promising context, and as part of the World Bank Group (WBG) role as a committed partner in Myanmar's transition to democracy and its efforts to achieve broad-based sustainable growth, IFC approved a loan to Awba of up to US\$10 million in June 2016. The convertible C Loan included an option to convert all or a portion of the loan into company equity once reforms of relevant local laws allowed foreign ownership in trading businesses such as Awba. The loan proceeds were intended for construction of a new agricultural industrial complex (Hmawbi Agricultural Industrial Complex, or HAIC), including a formulation plant, new fertilizer

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<sup>7</sup> Filed October 4, 2017. [https://www.cao-ombudsman.org/sites/default/files/downloads/Complaint\\_Myanmar%20Awba\\_ENG.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/Complaint_Myanmar%20Awba_ENG.pdf)

<sup>8</sup> <https://www.worldbank.org/en/country/myanmar/overview>



distribution stations, and warehouses; and provision of equipment and working capital for HAIC (Awba #35880). In December 2016, the entire loan amount was disbursed in a single tranche.<sup>9</sup>

6. In February 2021, the military took power by declaring a state of emergency, which was extended in 2023.<sup>10</sup> In response to the military coup, the WBG and IFC put a hold on all disbursements.<sup>11</sup> Conflicts have increased in the central and southeast regions, including the project site.

7. Awba fully prepaid the IFC loan in March 2021, ending IFC's involvement with the project.<sup>12</sup> IFC has had no direct engagement with Awba since then and maintains minor indirect exposure to Awba through its microfinance subsidiary, Maha Agriculture Public Limited (Maha). All recent engagements with Awba have been limited to the Maha microfinance business operations under project #38031.

### III. CAO CASE

8. In October 2017, CAO received a complaint from a community member, which was submitted on behalf of himself and other community members [REDACTED]

[REDACTED] (the Complainants). The complaint alleged pollution, lack of stakeholder engagement, access to information, and other items related to the Myanmar Pesticide Industry (MPI) facility in operation and the HAIC planned at the time of the complaint. Other issues mentioned included environmental damage, road access problems, human rights issues, and safety incidents harming local wildlife, health, and the local economy. The claims lacked supporting evidence.

9. In February 2018, an addendum to the complaint was submitted that expanded the issues of concern and noted additional project-affected people from eight villages. The addendum specifically cited concerns related to Performance Standards 1-8.<sup>13</sup> The initial complaint and addendum constitute the CAO case, Myanmar Awba-01/Myanmar.<sup>14</sup> Figure 1 below shows the location of the villages in relation to the HAIC facility and the MPI factory.

10. Three civil society organizations (CSOs) [REDACTED]—also supported the complaint.<sup>15</sup> During the

<sup>9</sup> <https://disclosures.ifc.org/project-detail/SII/35880/myanma-awba-group-company-limited>

<sup>10</sup> <https://www.worldbank.org/en/country/myanmar/overview>

<sup>11</sup> <https://www.worldbank.org/en/country/myanmar/overview - 2;>

<https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26176>

<sup>12</sup> <https://www.worldbank.org/en/country/myanmar/overview#2;>

<https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26176>

<sup>13</sup> <https://www.cao->

[ombudsman.org/sites/default/files/downloads/Complaint%20Addendum\\_Myanmar%20Awba\\_ENG.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/Complaint%20Addendum_Myanmar%20Awba_ENG.pdf)

<sup>14</sup> <https://www.cao-ombudsman.org/cases/myanmar-myanna-awba-group-company-ltd-01myanmar>

<sup>15</sup> [REDACTED]

CAO dispute resolution process, the Complainants included [REDACTED] as additional advisory CSOs.<sup>16</sup>

11. CAO found the complaint eligible in November 2017 and completed an assessment of the issues in March 2018.<sup>17</sup> A dispute resolution process was initiated and conducted following the assessment, between May 2018 and June 2020. While the Company preferred to continue with the dispute resolution process, the dialogue broke down as there was no longer a clear and unanimous mandate from any of the communities to proceed with dispute resolution. The case was subsequently transferred to the CAO compliance function.<sup>18</sup> CAO concluded the complaint met its criteria for compliance investigation in October 2020.<sup>19</sup> CAO's compliance investigation was completed under the 2021 CAO Policy and the Compliance Investigation Report was submitted in September 2023.

12. During the compliance appraisal process, in 2020, CAO was able to communicate directly with the Complainants. During the Compliance investigation, however, which took place after the military coup, CAO was no longer able to engage directly with the Complainants but communicated instead with their representatives.<sup>20</sup> In October 2023, CAO informed IFC that the representatives did not wish to continue engaging since they believed they could no longer speak for the Complainants.<sup>21</sup>

#### **IV. MANAGEMENT RESPONSE TO CAO FINDINGS AND RECOMMENDATIONS**

13. Management thanks the Complainants for raising the issues. IFC supported the Client during the 2018–2020 dispute resolution process. Management appreciates CAO's detailed analysis of IFC's approach to environmental and social (E&S) management of its investment in Awba and shares CAO's regret that the Complainants were not able to engage during the investigation.

#### **IFC RESPONSES TO CAO FINDINGS**

14. IFC undertook its Environmental and Social Due Diligence (ESDD) from January 2015 until February 2016. The ESDD process included site visits in January 2015, July 2015, and a follow-up visit in January 2016.

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<sup>16</sup> [https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20DR%20Conclusion%20Report\\_Myanmar%20Awba\\_ENG\\_0.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20DR%20Conclusion%20Report_Myanmar%20Awba_ENG_0.pdf)

<sup>17</sup> [https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20Assessment%20Report\\_Myanmar%20Awba\\_ENG.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20Assessment%20Report_Myanmar%20Awba_ENG.pdf)

<sup>18</sup> [https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20DR%20Conclusion%20Report\\_Myanmar%20Awba\\_ENG\\_0.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20DR%20Conclusion%20Report_Myanmar%20Awba_ENG_0.pdf)

<sup>19</sup> [https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20Appraisal%20Report\\_Myanmar%20Awba\\_ENG.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20Appraisal%20Report_Myanmar%20Awba_ENG.pdf)  
[https://www.cao-ombudsman.org/sites/default/files/downloads/ToR\\_MyanmarAwbaInvestigationNovember2020.pdf](https://www.cao-ombudsman.org/sites/default/files/downloads/ToR_MyanmarAwbaInvestigationNovember2020.pdf)

<sup>20</sup> p.20, CAO Investigation Report.

<sup>21</sup> As per CAO Policy, an IFC Management Action Plan would be consulted with complainants and their representatives.

15. In January 2015, before the formulation plant’s construction began, Awba commissioned a local Environmental Impact Assessment (EIA) for the IFC-supported greenfield HAIC. As part of the EIA study process, stakeholder meetings were held from June to November 2015.

16. The project Environment and Social Review Summary (ESRS) was published on IFC’s disclosure portal in February 2016; IFC determined the investment to be classified as a Category B for E&S risk, “investment is expected to have limited adverse environmental and social impacts which are expected to be site-specific, and none is expected to be significant.”<sup>22</sup> The construction of the IFC-financed HAIC plant commenced in January 2017, with the plant becoming operational in August 2018.

17. Before putting the new plant into operation, Awba sourced small volumes of agrochemicals from a neighboring, government-owned agrochemical factory, MPI. At the time of the appraisal, MPI was leased by and operating under a Joint Venture (JV) structure in which Awba’s owner held a stake. However, as a condition of disbursement for the Awba loan, the owner was required to transfer his 50 percent stake in the MPI JV into the Group. IFC deemed this step necessary to mitigate any potential cash leakage risk after converting the loan into equity. The scope of the appraisal related to MPI was limited to its role as a supplier. MPI was neither to be financed with the proceeds of the investment, nor was it part of the Group at the time of the E&S appraisal.

18. the results of ESDD were reflected in the Client’s Environment and Social Action Plan (ESAP). Accordingly, IFC prioritized the following aspects during E&S supervision:

- Strengthening organizational capacity for E&S management.
- Strengthening the Stakeholder Engagement Plan (SEP) and Community Grievance Mechanism (CGM).
- Completion of a supplemental Environmental and Social Impact Assessment (ESIA) for the HAIC and the development of Environmental and Social Management Plans (ESMPs), including public consultations.
- Supporting the Client during the CAO-facilitated dispute resolution process with the Complainants.

19. Below are detailed responses to the CAO findings and recommendations.

### **Environmental and Social Due Diligence**

20. IFC agrees that the ESDD on the potential investment was not commensurate with the E&S risks and impacts arising from both MPI and the new HAIC plant.<sup>23</sup>

21. IFC considers that—given the substantial level of information gathered and reviewed through multiple Client meetings and site visits, covering a wide range of E&S management components for the HAIC plant—the ESDD was adequately informed in terms of identification of

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<sup>22</sup> <https://disclosures.ifc.org/project-detail/ESRS/35880/myanma-awba-group-company-limited-a>

<sup>23</sup> IFC Sustainability Policy, para 22.

key organizational capacities and adequacy of its Environment and Social Management System (ESMS).

22. That said, the appraisal did not include an E&S assessment of MPI nor a review of the existing EIA for the HAIC. As the legacy MPI agrochemical factory was not part of the Group at the time of appraisal, the ESDD only considered it as a supplier and did not fully consider the risks of the MPI facility as part of the Company. The decision to include MPI occurred at the Investment Review Meeting in August 2015. IFC agrees with CAO that the scope of the ESDD should have been updated to include a review of the MPI JV operations and a comprehensive review of the existing 2015 EIA for the HAIC.

### **Remediation**

23. As noted above, IFC reviewed client documentation covering a wide range of E&S management components for the HAIC plant, held multiple Client meetings, and conducted site visits supporting the Client. IFC continually worked with Awba to establish required remediation measures.

24. In January 2017, IFC conducted its first site supervision visit to the Awba facilities, including the MPI factory. IFC identified E&S risks related to the MPI facility and recommended that Awba decommission the MPI factory once the HAIC plant started operation, due to MPI's unsatisfactory Environmental, Health and Safety (EHS) working conditions. Awba agreed to this step. The operations and production of agrochemicals at MPI were discontinued in December 2018. Awba's legal exit from the JV was completed in June 2019.

25. In May 2017, under IFC's guidance, Awba engaged an international consulting firm to prepare a supplemental ESIA for the HAIC that would comply with IFC's Performance Standards (PSs). The ESIA report was completed in 2018 and submitted to the relevant authorities for approval. The documents are publicly accessible on Awba's corporate website, as well as via links to that website on IFC's disclosure portal.

### **Air and Water Pollutants**

26. IFC agrees with the finding that IFC did not ensure Awba compliance related to air and water pollutants from the MPI plant due to the fact that no monitoring data for emissions or effluent releases from that facility were available for review during Supervision.

### **Grievance Mechanism**

27. Awba made considerable effort to develop and implement a CGM at the HAIC site. However, the implementation of the CGM across Awba's other facilities such as the MPI plant, warehouses, sales, and distribution points, was, despite IFC's continuous support, limited.

28. In August 2017, to support the implementation of the ESAP under IFC guidance, Awba engaged an international consulting firm, ██████████,<sup>24</sup> to develop the project's CGM.

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<sup>24</sup> ██████████ was awarded the contract in August 2017 and extended in March 2018 to provide further capacity building and assist Awba in addressing outstanding grievances.

Stakeholder mapping and coordination with an international consultant was included to develop the SEP. IFC requested the HAIC CGM be used as a template for Awba to initiate in other project sites, and this was reflected in the Community Engagement and Grievance Mechanism plan. IFC also requested the contract be extended in March 2018 to assist Awba in addressing outstanding grievances.

29. Awba also made measurable efforts to further community awareness, with several public disclosures occurring during 2017-2018. Awba provided IFC with quarterly grievance reports beginning in 2018 and there was no indication that there were issues with implementation of the CGM at the HAIC.

### **Stakeholder Engagement**

30. IFC acknowledges the initial lack of a requirement for Awba to develop a SEP, although Awba initiated subsequent stakeholder engagement activities and consultations at IFC's behest in June 2017.

31. IFC advised Awba to engage an international consulting firm to develop the SEP.<sup>25</sup> In 2018, the contract was extended at IFC's request to provide further capacity building. Between July 2018 and June 2019, three ESIA workshops were held—one in Yangon in February 2018, one at the HAIC in February 2018, and one in the [REDACTED] in September 2018—with thirteen engagement sessions.

### **Differential Impacts on Indigenous Peoples**

32. IFC recognizes that the 2018 supplementary ESIA by Awba did not explicitly consult Indigenous Peoples. While a limited assessment was conducted, including focus groups and household surveys, IFC concedes it did not sufficiently ensure the Company's assessment of vulnerable groups. Stakeholder consultation was carried out as part of the 2018 supplemental ESIA, which included consultation with indirectly and directly affected persons within the project's area of influence.

33. Efforts to understand and respect the rights of ethnic groups within the project's design were evident, as demonstrated by the inclusion of relevant national legislation in the 2018 supplemental ESIA.

### **Access to Information**

34. IFC recognizes the importance of continuous stakeholder engagement and the need for improved documentation and disclosure practices in this case. IFC agrees with CAO on the lack of disclosure of specific reports. While efforts were made to inform the Client of the need for disclosure, external factors and ongoing processes impacted the timely release of information.

35. The finalized 2018 Supplemental ESIA was not disclosed, as approval by the domestic regulatory agency remained pending. During IFC's investment, regulatory delays in ESIA approvals were common as there was a nationwide backlog in the review and approval of ESIA

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<sup>25</sup> [REDACTED]

and ESMPs in Myanmar, and interim licenses for operations were granted. The WBG's 2019 Myanmar Country Environmental Analysis details this.<sup>26</sup> The Company publicly disclosed the 2018 Supplemental ESIA Report and supporting ESMP on its website in 2020.<sup>27</sup>

### **Related Harm**

36. CAO's compliance investigation was completed under CAO Policy, which defines the objective of a compliance investigation to determine whether IFC has complied with its E&S Policies and whether there is harm related to any IFC non-compliance.<sup>28</sup> CAO was not able to identify harm with certainty in this compliance investigation.

37. CAO stated that there might be indications of related harm or potential harm when it is reasonably likely that the alleged harm occurred or could happen in the future. CAO did not identify any indications of harm concerning Awba's grievance mechanism, nor was it able to establish the likelihood of harm related to water and air pollution non-compliance due to the gaps in baseline and monitoring data (attributed in part to inadequate IFC oversight).

38. CAO found indications of harm related to: (i) poor stakeholder engagement, which limited opportunities to provide feedback on project impacts on Complainants' lives; (ii) lack of disclosure of key E&S documents, which limited affected people's understanding of project impacts; (iii) non-identification of differential impacts on ethnic minority groups, which may otherwise have led to additional protections; and (iv) limitations in access or damage to roads around the project, the possible scope of which could not be established.

39. CAO could not establish any of these harms with certainty, given the lack of access to the site and the Complainants.

40. IFC agrees with CAO's conclusion that insufficient baseline data at the time of the ESDD and insufficient disclosure of E&S information during implementation contributed to CAO's inability to identify harm. The two-year dispute resolution process before the CAO investigation also did not substantiate the allegations raised in the complaint. The Complainants did not engage with CAO during the compliance investigation.

### **Underlying Causes**

41. In addition to CAO's analysis of underlying causes of non-compliance, IFC identifies the change in the Group structure between the initial ESDD and disbursement and consequential shortcomings in the scope of the ESDD as root cause for non-compliance. The weak institutional capacity for environmental management across government and the private sector within an FCS and IDA context also was a contributing factor.

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<sup>26</sup> <https://www.worldbank.org/en/news/infographic/2019/06/11/environmental-impact-assessment-in-myanmar>

<sup>27</sup> [https://awba-group.com/wp-content/uploads/2018/02/20180214-AWBA-Supplementary-ESIA-Report\\_v0.2\\_FINAL.pdf](https://awba-group.com/wp-content/uploads/2018/02/20180214-AWBA-Supplementary-ESIA-Report_v0.2_FINAL.pdf), <https://awba-group.com/wp-content/uploads/2020/07/ESMP-Report-June-2019.pdf>

<sup>28</sup> CAO Policy para 112. For further information, see CAO Policy Transitional Agreement: <https://www.cao-ombudsman.org/sites/default/files/downloads/CAOPolicy-TransitionalArrangements.pdf>.

## **IFC RESPONSES TO CAO RECOMMENDATIONS**

42. The CAO Policy defines the process for CAO's investigation, any findings of non-compliance and related harm and the recommendations CAO may make for IFC to consider when developing a MAP.<sup>29</sup> While CAO stopped short of verifying the allegations of harm with certainty in this case, it proposed several project-level and systemic recommendations.

43. IFC's responses to CAO's recommendations are provided below. The MAP follows in the next section of the report.

### **Project-Level Recommendations**

***CAO Recommendation 1: Conduct an assessment of IFC's possible influence with key stakeholders related to this case, including the Awba Group and the project's sponsor, who is also Awba's managing director.***

***CAO Recommendation 2: Following this assessment, determine what actions IFC could take, or encourage the Client to take, at the project level to address the non-compliances and related harm found in this case, particularly with regard to the lack of proper stakeholder engagement, disclosure of E&S information, limitations in road access to communities, and potential differential impacts on the livelihoods of ethnic groups in the project area.***

44. IFC addressed these two recommendations as part of preparing this Management Report. IFC engaged with relevant parties, to assess the security situation following the military coup in February 2021 and the possibility of engaging with the Company, complainants, and other stakeholders. IFC engaged with the Client to address the remaining issues raised in the complaint and also considered its potential leverage over the former Client through its relationship with Maha (project #38031).

45. Following the 2021 military coup, CSOs and civilians faces a heightened security risk. Therefore, IFC concludes there is currently very limited potential for engagement with Awba and no potential for engagement and collaboration with on-the-ground stakeholders to address potential project-level harm. IFC is not in a position to create a safe and secure environment for any engagement.

46. IFC has additional exposure to Awba through its equity investment in Maha Agricultural Finance, where Awba is the controlling shareholder. However, Maha has been in financial distress and is restructuring its financial obligations. As a minority shareholder, IFC will not be providing further financial support, and its minority stake is expected to be diluted by the controlling shareholder, Awba. In this context, IFC does not consider that its exposure to Maha provides it with material leverage to influence Awba regarding possible future actions on the project site in response to CAO recommendations.

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<sup>29</sup> CAO Policy para 112.

***CAO Recommendation 3: Disclose the 2018 ESIA on IFC’s disclosure website and update the ESAP’s implementation status.***

47. IFC was able to address and complete this recommendation. Without Awba approval to publish the 2018 Supplemental ESIA and ESMP on IFC’s website directly, IFC has instead disclosed the links to Awba’s website, where the documents are publicly available.<sup>30</sup> The 2018 Supplemental ESIA is available in Burmese and English; the ESMP is in English only. IFC also updated the ESAP implementation status based on E&S information available to IFC.<sup>31</sup>

### **Institutional-Level Recommendations**

***CAO Recommendation 4: Strengthen internal controls within IFC Management to ensure that, before Board approval, the potential and known E&S risks and impacts of the investment(s) and their mitigation measures are analyzed and understood by IFC to determine that the investment activities will be able to meet relevant Performance Standards within a reasonable period of time. This will also ensure that IFC has the necessary leverage to ensure its Client’s conformance with relevant PS through loan covenants, ESAP, and other relevant means.***

48. IFC recognizes the importance of effective internal controls for E&S risk management. Since the investment in Awba in 2016, internal controls have been significantly strengthened, as reflected in the most recent update of IFC’s revised Environmental and Social Review Procedures (ESRP). The ESRP now captures all likely risks from changes in asset scope during the investment cycle, giving clarity to all participants in the process. IFC considers this recommendation addressed.

49. The revised and enhanced ESRP process and the expansion of risk management to include the IFC’s Environmental and Social Risk Department (for high-risk projects) increases the oversight and escalation options for the Lead Environmental and Social Specialist (LESS) when identifying the project E&S risk profile, defining the ESAP contents, ranking E&S risks, and setting the subsequent E&S action item due dates.

50. In addition to CAO’s analysis of underlying causes of non-compliance that are the basis for systemic recommendations, IFC identifies the change of the Group’s structure at the final stages of due diligence as the root cause for IFC non-compliance. The ESRP requires the LESS to amend the ESDD based on changes in the proposed investment scope during due diligence. Supported by an escalation process to the Sector Lead, Regional Manager, and eventually to the Director level, there is now a framework within the ESRP to manage changes in investment scope. To ensure that future changes are appropriately managed, IFC proposes a MAP action to strengthen training for IFC staff on the requirements in the ESRP to address changes in investment scope and related E&S risks (see Annex A).

<sup>30</sup> <https://disclosures.ifc.org/project-detail/ESRS/35880/myanma-awba-group-company-limited>

<sup>31</sup> <https://disclosures.ifc.org/project-detail/ESRS/35880/myanma-awba-group-company-limited>



***CAO Recommendation 5: Develop guidance for IFC staff when assessing clients' E&S management capacity that: a) ensures IFC's E&S due diligence is better integrated with other risk assessments (such as financial and commercial risks assessments), carried out by IFC during pre-investment due diligence, and revisited during project supervision as appropriate. While IFC's E&S risk assessment should be independent of project-related financial and commercial interests, it should be better integrated within the overall business risk assessment framework as required by the Sustainability Policy (para.21); b) emphasizes that client capacity and commitment to implement E&S commitments should be scrutinized during pre-investment review and monitored closely during Supervision, with risk assessments revisited as needed to adjust mitigation measures.***

51. Management welcomes CAO's detailed recommendation on assessing a client's E&S capacity. Actions related to Recommendation 5(a) have been implemented already, and guidance is available to IFC staff: The ESRP (2023) details all roles, responsibilities, and interactions throughout the entire project cycle from ESDD through Supervision to exit, ensuring that E&S risk assessment and management are continuously considered and integrated in all projects.

52. IFC also considers Recommendation 5(b) as implemented: The ESRP (2023) requires assessment of client capacity and commitment in E&S management throughout the project cycle. For example, it defines the responsibilities of the LESS to evaluate the effectiveness of the Client's ESMS at the appraisal stage. Specifically, it describes client capacity and commitment to E&S management in the Board Paper input.

***CAO Recommendation 6: Incorporate lessons learned from this case into IFC's proposed principles on responsible exit. For example, IFC could: a) expand the scope of application of its proposed principles to circumstances where the Client exits from project or sub-projects included in the investments and where the Client prepays the loan. b) legally require that clients be obligated to exit responsibly in circumstances of prepayment and exit from projects or sub-projects included in the investment. This could include requiring clients to implement best practices, such as conducting an assessment to determine when and how an exit should take place vis-à-vis Management of E&S risks, and developing exit plans, informed through stakeholder engagement, to address any outstanding E&S issues and identity any necessary remedial actions prior to exit. c) actively monitor the implementation of client exit plans from projects and sub-projects associated with IFC financing, including by ensuring that clients are on track to meet agreed E&S commitments and address outstanding E&S issues prior to approval of prepayments.***

53. IFC understands that CAO's recommendations intend to highlight this case as an example to influence future considerations on the scope of IFC's proposed Principles on Responsible Exit or similar institutional initiatives. This specific recommendation does not respond to compliance gaps with the current Sustainability Framework and related procedures or proposes steps to prevent future non-compliance to be addressed in a MAP.<sup>32</sup> It therefore cannot be addressed in a case-specific MAP, which aims to address non-compliance under the current Sustainability Framework and related procedures and systems.

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<sup>32</sup> CAO Policy para 113 defines the conditions and scope for CAO recommendations to be considered in a MAP.

54. The purpose of the proposed IFC Principles for Responsible Exit is to define a decision-making framework for IFC when deciding to exit an investment (active exit).<sup>33</sup> This decision-making framework does not apply when IFC is not a decision-maker of the exit (passive exit). In this case, the debt was repaid early and at the Client's discretion.

55. Management welcomes continued engagement with CAO on responsible exit, including passive exits and will continue to collaborate with the CAO's Advisory Function on the dissemination and consideration of related knowledge products.

## V. MANAGEMENT ACTION PLAN

56. As described in the section above, IFC has addressed all project-specific and systemic recommendations related to non-compliance under the current Sustainability Framework. IFC has offered further reflections on the underlying causes of the non-compliance identified in this case and presents a MAP in Annex A that proposes an additional action to CAO recommendations. The MAP's objective is to strengthen guidance for IFC staff in managing changes of investment structure and scope and related E&S risks.

### **Consultation with Complainants and Client**

57. IFC incorporated input from IFC staff and security experts on the feasibility of complainant engagement. The CAO Policy calls for Management to consult on the MAP with Complainants and the Client.<sup>34</sup>

58. The proposed MAP does not include actions involving the Client, which would require client agreement.

59. As per the information in the CAO Investigation Report, the Complainants did not engage in the investigation process, and the complainant representatives have been unable to engage with the Complainants.<sup>35</sup> Currently, neither IFC, CAO, nor the complainant representatives can contact the Complainants.

60. In October 2023, CAO informed IFC that the complainant representatives no longer consider that they can speak for the Complainants and, therefore, do not wish to engage with IFC on any proposed MAP. In November 2023, CAO identified additional complainant representatives from [REDACTED] CSOs [REDACTED]. However, the position of the representatives did not change.

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<sup>33</sup> An active exit is one in which IFC proactively decides to exit or agrees to amend the terms of the transaction documents to enable the Client to exit in circumstances where such exit, at that time, would not have otherwise occurred without action by IFC. Most equity sales, as well as debt accelerations, are categorized as active exits. All other IFC exits are categorized as passive exits, e.g., repayment when the debt reaches maturity and prepayments where IFC does not have the right to consent to the loan prepayment.

<sup>34</sup> CAO Policy paras 133-134.

<sup>35</sup> CAO Investigation report, p.20.

61. Hence, at the date of submission of this MR, IFC did not consult on the proposed MAP with Complainants or their representatives. Management welcomes any feedback on the proposed MAP should complainant representatives choose to submit comments directly to the Board.

### **Managing the Risk of Reprisals**

62. IFC strongly supports CAO's statement on security concerns and reprisals against complainants, Awba staff or any stakeholders in Myanmar. As outlined in IFC's statement on retaliation against civil society and project stakeholders, IFC does not tolerate any action by an IFC client that amounts to retaliation.<sup>36</sup> In engaging with Clients, project stakeholders, or complainants, IFC always assesses the risk of reprisals as part of its engagement methodology and takes necessary precautions. In a high reprisal risk context like Myanmar, this includes assessing contextual risk. IFC concluded that there is a high likelihood of reprisal and threats against the Complainants and the Client. Any engagement with a group of people, virtual or in person, may be subject to surveillance and interference. Therefore, at this moment, IFC cannot create a safe and secure environment for engagement with the Complainants or Awba staff to engage in MAP consultation and implementation.

63. Notably, the proposed MAP does not include any project-specific actions to be implemented in Myanmar. A consultation with the Complainants on the proposed action to develop IFC internal guidance on project structuring and E&S risk management would not justify exposing them to high risks of reprisals and to their safety.

## **VI. CONCLUSION**

64. Management appreciates CAO's constructive engagement and the detailed assessment in CAO's Investigation Report. It acknowledges CAO's findings that underscore the significant risks of investing in IDA and FCS contexts.

65. Management was able to address all project-level recommendations directly before submission of this MR. Management agrees with CAO and emphasizes that no project-specific actions in Myanmar are feasible at this time due to the fragile security situation in the aftermath of the military coup in February 2021. Further, Awba prepaid the IFC project loan in 2021, and IFC has very limited leverage or engagement with the former Client. Security conditions preclude any IFC engagement with the Complainants.

66. Management demonstrated how systemic recommendations have already been implemented since the investment in Awba in 2016 and proposes an additional action in a MAP beyond the CAO's recommendations.

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<sup>36</sup> <https://www.ifc.org/content/dam/ifc/doc/2023/201810-ifc-position-statement-on-reprisals-en.pdf>

**ANNEX A: MANAGEMENT ACTION PLAN (MAP)**

Management has proposed actions that go beyond CAO recommendations and the corresponding findings that Management can address. The MAP below specifies actions that IFC will implement within a proposed timeframe. As per CAO policy, IFC must consult on the MAP with the Client and Complainants to determine these actions; however, in this case, IFC cannot hold consultations with the Company or the Complainants for reasons documented in the Management Report.

<b>CAO Recommendation</b>	<b>Action</b>	<b>Responsibility</b>	<b>Deliverable / expected outcome Timeframe</b>
5. Develop guidance for IFC staff when assessing clients' E&S management capacity.	<p><b>Guidance for IFC Staff on change of investment scope.</b></p> <p>The ESRP (2023) is sufficient to address this institutional recommendation and guide IFC staff in assessing the E&amp;S management capacity of the potential IFC client. The proposed action is to reinforce that knowledge within IFC by focusing on the management of changes in investment scope and assets during the ESDD process. This guidance will reiterate and explain the actions to identify, inform, escalate, and address E&amp;S needs when material changes in investment scope and client assets emerge at any stage of the investment due diligence.</p>	IFC	<p>1) Training Module: <i>Managing Asset or Scope Changes from Due Diligence to Disbursement.</i></p> <p>Timeframe: Q2FY25</p> <p>2) Deliver Module as part of regular E&amp;S and investment staff training.</p> <p>Timeframe: Q4FY25</p>

## **Disclaimer**

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

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