INTERNATIONAL FINANCE CORPORATION

MANAGEMENT REPORT AND MANAGEMENT ACTION PLAN IN RELATION TO THE CAO COMPLIANCE INVESTIGATION REPORT ON

RIZAL COMMERCIAL BANKING CORPORATION (PROJECTS #30235, #32853, #34115 and #37489)

PHILIPPINES – EAST ASIA REGION

February 10, 2022

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

BIC	Bank Information Center
BSP	*Bangko Sentral ng Pilipinas,* Central Bank of the Philippines
CAO	Office of the Compliance Advisor Ombudsman
CSO	Civil Society Organization
E&S	Environmental and Social
ECS	Enhanced Client Support Program
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESG	Environmental, Social and Governance
ESMR	Environmental and Social Monitoring Report
ESMS	Environmental and Social Management System
ESRP	Environmental and Social Review Procedure
FI	Financial Institution
GHG	Greenhouse Gas
IDI	Inclusive Development International
IFC	International Finance Corporation
IFC Cap Fund	IFC Capitalization Equity Fund
MAP	Management Action Plan
MSCI	Morgan Stanley Capital International
NGO	Nongovernmental Organization
PACTA	Paris Agreement Capital Transition Assessment
PCAF	Partnership for Carbon Accounting Financials
PS	IFC's Environmental and Social Performance Standards
PMCJ	Philippine Movement for Climate Justice
RCBC	Rizal Commercial Banking Corporation
SME	Small-Medium Enterprises
US$	United States Dollar

EXECUTIVE SUMMARY

i. In October 2017, the Compliance Advisor Ombudsman (CAO) received a complaint from a nongovernmental organization (NGO), the *Philippine Movement for Climate Justice*, with support from *Inclusive Development International* and *Bank Information Center* (the Complainants), on its own behalf and that of communities living near 19 active/proposed coal-fired power plants (the Complaint). The Complaint alleged that an IFC Financial Intermediary (FI) client, Rizal Commercial Banking Corporation (RCBC), had provided financial support to these projects without applying IFC Performance Standards (PS), leading to potentially serious environmental and social (E&S) harms to affected communities and contributing to global climate change.

ii. RCBC is the 8th largest universal bank by total assets in the Philippines, providing a range of banking products and services. IFC's financial support to RCBC, totaling US$228 million to date, began with an equity transaction in 2011, followed by three further transactions between 2013 and 2015 involving additional equity, an SME loan, and participation in a bond issuance. IFC and the IFC Capitalization Equity Fund L.P. (IFC Cap Fund), a fund managed by the IFC Asset Management Company (AMC), currently have a combined shareholding of 5.3 percent.

iii. CAO determined that 11 of the 19 coal-fired power plants cited in the Complaint met its eligibility criteria. These power plants were major supply investments approved by the Philippine government. Each of them was funded by multiple financers through syndicated loans with RCBC typically contributing 10 to 20 percent of overall funding. CAO provided its final Compliance Investigation Report to IFC on November 19, 2021. The report contains 14 findings, including gaps related to IFC E&S appraisal, decision-making and supervision on repeat investments in RCBC, concluding that some of the alleged adverse impacts on communities and the environment contained in the Complaint were "very likely or rather likely" to have occurred. The investigation concludes that shortcomings in IFC's review and supervision of its investment may have contributed to a situation whereby RCBC has supported development and expansion of the coal-fired power plants without assurance that these plants will operate in accordance with IFC PS. The CAO Report includes recommendations to IFC regarding RCBC's ESMS, IFC requirements for FI sub-projects, climate change considerations, and systemic causes of CAO's non-compliance findings.

iv. Management is deeply concerned over allegations of risk of harm to communities and appreciates the findings of the CAO Report, particularly regarding the thorough review of IFC's investments in 2011, 2013 and 2015. IFC agrees with many of CAO's findings and recommendations, as summarized below.

v. According to IFC's Sustainability Policy, IFC clients, including FIs, are responsible for managing E&S risks and impacts of sub-project investments consistent with IFC E&S requirements. In this case, RCBC was responsible for conducting pre-investment E&S due diligence for relevant sub-projects, including identifying any gaps between national laws and IFC's PS, as needed, and assisting sub-project borrowers to address these gaps. Management acknowledges that for an extended period of time RCBC did not fully comply with the IFC E&S requirements to which it was subject.

vi. IFC recognizes that, despite gaps in RCBC's capacity and systems having been identified relatively early on in IFC's engagement with the bank, it has proven challenging to fully address these despite an ongoing focus on and commitment to making necessary improvements by both IFC and RCBC. As a consequence of these E&S-related concerns not yet being fully addressed, IFC has not provided further financing to RCBC since 2016. IFC's ongoing relationship with RCBC has now focused on addressing such concerns and on supporting other areas of its business through enhanced supervision and technical assistance. IFC's primary objective when it first engaged with RCBC was to strengthen the financial sector in the wake of the global financial crisis by investing in systemically important FIs whose strategy was aligned with IFC's developmental objectives for the Philippines, including financial inclusion and sustainability. RCBC remains an important client for IFC in the Philippines to pursue its developmental agenda particularly in the areas of sustainability, financial inclusion, and digital innovation, and one which remains committed to addressing outstanding E&S compliance matters.

vii. Management acknowledges that IFC initially underestimated the level and number of challenges faced by RCBC to implement an effective ESMS and to apply IFC PS to its high-risk lending activities. The process of developing an appropriate ESMS took several years due to the absence of consultants in the Philippines with experience working with IFC PS requirements, coupled with IFC's own constrained FI-support capacity at that time. Once the ESMS was finalized, IFC supervision identified shortcomings related to its implementation, in particular vis-a-vis application of IFC PS to high-risk sub-projects. Supplemental E&S actions were duly incorporated into legal agreements for the 2013 and (more extensively) the 2015 follow-up investments, leading to a concerted effort to address identified deficiencies. Following a hiatus resulting from RCBC having to address fallout from the 2016 Bangladesh Bank Heist where the Bank was not found guilty of money laundering but nonetheless had to strengthen controls to prevent such breaches in the future, IFC and RCBC made a coordinated effort from 2017 to 2019 to increase the bank's E&S capacity and further incorporate IFC PS into RCBC's due diligence and project supervision processes for high-risk transactions, in keeping with its 2015 legal commitments to IFC. This involved a higher level of attention and resources than anticipated by either institution, requiring senior-level discussions and provision of technical assistance.

viii. The timing of the 2017 CAO Complaint overlapped with the IFC and RCBC joint efforts to address outstanding E&S performance issues related to the bank's loan origination activities. The focus thus shifted to the portfolio-level coal-power sub-projects and the need to re-examine these through a retrospective PS-focused lens. RCBC's evolving E&S capacity and IFC's technical assistance were drawn into this retrospective effort, particularly once RCBC announced it would stop financing coal-related projects in December 2020. Consequently, although RCBC's procedures now incorporate IFC PS as envisaged under the most recent (2015) legal agreement, a gap remains with respect to incorporation of PS compliance gaps identified by RCBC into binding sub-project-level corrective actions. This gap is correctly identified in the CAO Report and will be addressed through the Management Action Plan (MAP) described below, with RCBC's full commitment.

ix. IFC supervision efforts since 2020 have been significantly affected by COVID-19 travel constraints and have focused on ongoing virtual efforts to assist RCBC to manage its high-risk pipeline (mainly renewables) and portfolio projects and to facilitate the CAO investigation.

x. In IFC's view, the shortfalls in RCBC's E&S performance over this sustained period demonstrate the challenges of bringing a universal bank into compliance with IFC requirements, in a country context where market players do not have a good understanding of IFC's E&S requirements for FI clients. It has also generated lessons which are instructive for IFC and its evolving E&S approach to universal bank transactions, such as the significant effort and resources required to transform a commercial bank's due diligence and monitoring capacity and systems, and this case has specifically highlighted issues in applying IFC PS to sub-projects financed via syndicated lending structures where IFC is not engaged with the other participants in the lender group. IFC currently has no other equity investments in a Philippine FI and subsequent bond deals with FIs in the country have specifically excluded exposure to high-risk sub-projects in order to avoid this challenge. Should IFC make another equity investment in an FI, the Green Equity Approach will have to be applied in addition to IFC's E&S requirements.

xi. IFC has thoroughly reviewed CAO's findings and recommendations and will use them to guide future engagement with RCBC, including the implementation of a Board-approved MAP. The MAP contains four areas of improvement in response to CAO's recommendations, including: (1) further strengthening of RCBC ESMS implementation; (2) assessing and addressing E&S complaint sub-project impact and compliance status; (3) addressing complaint sub-project greenhouse gas (GHG) emissions and improving RCBC's climate-related disclosures; and (4) addressing opportunities to improve E&S risk management of IFC's broader FI investments. Management will supervise the implementation of the MAP after its approval by the Board and submit annual progress reports to the Board on its implementation.

xii. Actions contained in the MAP closely correspond to CAO's recommendations. These actions have been discussed with RCBC and the Complainants during December 2021-January 2022 to: (1) obtain RCBC's commitment to implement actions for which it is responsible, and (2) incorporate Complainants' feedback, to the extent feasible as explained below. RCBC accepts the proposed MAP measures and is committed to working with IFC to implement them, despite commercial concerns regarding its competitiveness in the marketplace, and while also clarifying its limited leverage over sub-project operators of the coal-fired power plants. The limitation relates to the syndicated nature of these loans and the fact that IFC PS were not incorporated into associated legal agreements. The Complainants raised several concerns in relation to an initial MAP draft, most of which are addressed in the current version. Their main residual concern pertains to how and when alleged community harms will be addressed and what role IFC and RCBC will play in addressing them.

xiii. While IFC is committed to addressing CAO findings, it believes that some recommendations are not feasible to implement, such as publicly disclosing sub-project-related findings without consent from the sub-project operators or commissioning independent monitoring studies outside sub-project boundaries if sub-project operators refuse to participate. These proposed measures are inconsistent with IFC's Access to Information Policy and IFC has therefore included alternative measures in the MAP to try to address CAO's underlying concerns in line with the same objectives, such as reaching out to the relevant authorities to seek air and water quality monitoring data in instances where operators decline to share their data.

xiv. Management notes that, in keeping with IFC's approach to its FI business according to the Sustainability Policy, IFC's role in MAP implementation will focus on supporting RCBC to address identified gaps in its due diligence and monitoring activities. In doing so, IFC will not directly engage with sub-project borrowers, with which it has no legal or commercial relationships. Instead, IFC will support RCBC to: (1) engage with its borrowers on E&S concerns; (2) help facilitate identification of compliance gaps; and (3) support a process to bring any recommended corrective measures to the attention of sub-project borrowers and their lenders. Given ongoing COVID-19 travel constraints, IFC's support is expected to be mainly virtual in the short-term, i.e., until conditions allow for regular mission travel to re-start.

xv. Management notes that it has to date not been possible for CAO or IFC to confirm whether alleged E&S harm has occurred at the level of individual sub-projects as a result of the gaps identified by CAO, or if such harm is attributable to CAO's non-compliance findings. These questions are central to the successful resolution of this case and are expected to be answered through implementation of the agreed MAP, the outcome of which will help determine whether further actions would be warranted or not.

xvi. Finally, it is worth noting that IFC has made significant improvements in its FI operations in the years since it made the first investment in RCBC, through, for example, enhancing its own internal capacity, focusing on enhanced appraisal and supervision processes for high-risk transactions, and increasing investment selectivity to reduce FI-related exposure to high-risk asset classes. IFC is now implementing further initiatives, such as launching sub-project disclosure for certain classes of FI clients and developing a revised FI Interpretation Note, which aim to provide more clarity on implementing IFC E&S requirements in different situations. This is being done as part of applying lessons learned, continual improvement and in the context of commitments made for the Capital Increase and in response to External Review recommendations. As a result, IFC has a more robust practice that should make key aspects of the RCBC CAO findings unlikely to re-occur in similar projects financed today.

I. INTRODUCTION

1. This Management Report and Recommendations responds to the findings of the Compliance Advisor Ombudsman (CAO) related to IFC's investment in the Rizal Commercial Banking Corporation (RCBC) in the Philippines, as detailed in the final Compliance Investigation Report dated November 19, 2021 (CAO Report). RCBC has been a client of IFC since 2011 and along with its sponsor, the Pan Malayan group of companies, part of an important relationship for IFC in the Philippines.

2. In October 2017, CAO received a complaint (the Complaint) from the nongovernmental organization (NGO) *Philippine Movement for Climate Justice* (PMCJ), with support from two international NGOs,[1] specifically *Inclusive Development International* (IDI) and *Bank Information Center* (BIC) (the Complainants). PMCJ submitted the complaint on their own behalf and on behalf of communities living in the proximity of 19 active or proposed coal-fired power plants. The Complaint alleged that RCBC provided financial support to these power plants and that these plants are causing serious environmental and social (E&S) harms or are likely to cause harm once they become operational, in addition to contributing to the global climate change crisis.[2] CAO determined that 11 of these 19 coal-fired power plants (Complaint Sub-Projects) met CAO's eligibility criteria.

3. This CAO case involves an IFC client that is a Financial Institution (FI) and its related financial exposure to multiple coal-fired power plants, associated greenhouse gas (GHG) emissions and climate change impacts.

4. IFC takes the Complainants' allegations related to E&S risks and climate impacts of the RCBC-financed coal-fired power plants seriously, including the alleged impacts on communities living in the proximity of the sub-projects. IFC has consistently cooperated with CAO throughout its assessment, compliance appraisal and investigation phases, including facilitating communications between the client and CAO and addressing such issues as confidentiality concerns.

5. IFC has continued supervision of its investments with RCBC, including monitoring overall E&S performance, and supporting RCBC's efforts to strengthen the implementation of its Environmental and Social Management System (ESMS).

6. IFC has also continued to improve its own approach to FI investments in general, including eliminating or significantly restricting exposure to high-risk sub-projects and, in exceptional cases where such risks are permitted, being more rigorous in confirming a client's capacity and/or willingness to develop such capacity to manage sub-projects with high E&S risks. In terms of addressing coal related exposure, in 2019 IFC introduced the Approach to Greening Equity Investments in Financial Institutions (Green Equity Approach),[3] which requires all new FI clients in

[1] CAO Compliance Investigation Report, pg.17 (November 19, 2021).
[2] Complaint concerning IFC investments in and financing to RCBC (submitted to CAO on October 11, 2017), pg.1.
[3] https://www.ifc.org/wps/wcm/connect/05541643-0001-467d-883c-5d7a127ffd57/IFC+Greening+Report+Sept+2020.pdf?MOD=AJPERES&CVID=nisvaOC&ContentCache=NONE&CACHE=NONE#:~:text=Under%20IFC's%20Approach%20to%20Greening,exposure%20to%20coal%2D%20related%20projects

which IFC invests equity or quasi-equity to commit to exit coal-related investments within an agreed period.

7. CAO completed its compliance investigation in November 2021. The CAO investigation found gaps in IFC's E&S pre-investment reviews, decision-making on repeat investments, and in IFC's ability to verify client compliance with applicable IFC Performance Standard (PS) requirements for high-risk sub-projects, including in relation to pollution and GHG emissions from sub-projects referenced in the Complaint.

8. The CAO Report also includes recommendations to IFC regarding RCBC's ESMS implementation, IFC's requirements related to FI sub-projects, including air and GHG emissions, as well as underlying factors that led to CAO's non-compliance findings.[4] IFC broadly agrees with many of CAO's findings and recognizes RCBC's delay and lack of E&S risk management capacity over the years in applying IFC PS, particularly relating to the 2011 and 2013 investments.

9. One of the main challenges for both IFC and CAO in this case involved the inability to confirm that E&S harm had occurred at the level of individual sub-projects as a result of the gaps identified by CAO, or if any such E&S harm was attributable to CAO's non-compliance findings. IFC has thoroughly reviewed CAO's findings and recommendations and will use them to guide future engagement with RCBC, including the implementation of the IFC Board-approved Management Action Plan (MAP).

10. This Management Report is organized into five sections. The following section provides information on the background and objectives of each IFC investment as well as a review of IFC's E&S appraisal and supervision, RCBC ESMS performance, and key contextual considerations. Section III includes a summary of the Complaint and the CAO process, culminating in a number of recommendations and IFC's overall responses to them. Section IV presents IFC's response to CAO's findings (detailed in a tabulated matrix in Annex A), providing the context, history and actions taken (or proposed) in relation to these findings or concerns. Section V includes a summary of the consultations with RCBC and civil society organizations (CSOs), including the Complainants. Finally, Section VI offers conclusions and lessons learned.

[4] See Annex G of CAO Compliance Investigation Report and pgs.9-12, 51-55 (November 19, 2021).

II. PROJECT BACKGROUND

IFC Investments and Project Objectives

11. RCBC is the eighth largest bank by total assets in the Philippines and provides a wide range of banking and financial products and services, including commercial and retail banking.[5]

- RCBC has total assets of US$17.1 billion equivalent and shareholders' equity of US$2.1 billion equivalent as of September 30, 2021.

- RCBC has been listed on the Philippine Stock Exchange since 1986 and has a market capitalization of approximately US$0.8 billion as of January 2022; it is rated Baa3 (Senior Unsecured) by Moody's.

- RCBC is 50-percent owned by the Yuchengco Group of Companies, primarily through the Pan Malayan Management and Investment Corp. The Cathay Life Insurance Corp. owns 22 percent of the equity interests of the Bank. Sumitomo Mitsui Banking Corporation recently acquired 4.999 percent of RCBC.

- IFC and IFC's Capitalization Fund have direct equity stakes of 1.8 percent and 3.5 percent, respectively, for a combined stake of 5.3 percent as of February 1, 2022.

- The rest of the equity interests are held by public investors.

12. RCBC has been a strategically important client for IFC in the Philippines since 2011. IFC has made four investments in RCBC for a total amount of US$228 million. IFC's primary objective when it first engaged with RCBC was to strengthen the financial sector in the wake of the global financial crisis by investing in systemically important FIs whose strategy was aligned with IFC's developmental objectives for the Philippines, including financial inclusion and sustainability.

13. Following the global financial crisis, IFC and the IFC Capitalization Equity Fund L.P. (IFC Cap Fund) made significant equity and quasi-equity investments in systemic domestic Asian banks to enhance intermediation capacity, governance, and environmental and social standards, and to address their higher capital requirements with the advent of Basel III. On the strength of an increased equity base and long-term resources, such banks, including RCBC, would be better equipped to address the funding needs of priority economic sectors, particularly small and medium enterprises (SMEs), which have strong impacts on the domestic economy and employment.

- In 2011, IFC invested US$49 million in equity, acquiring 7 percent of RCBC at the time.

- In 2013, the IFC Cap Fund committed US$100 million in a common equity investment, which catalyzed another U$100 million from qualified institutional buyers.

- In 2014, IFC approved a US$30 million loan to RCBC for SME financing, including those affected by Typhoon Haiyan. RCBC prepaid the loan on July 15, 2018.

[5] RCBC obtained its universal banking license in 1989.

- In 2015, IFC invested US$50 million as an anchor investor in RCBC's US$320 million bond issuance. The bond was oversubscribed with an order book of US$1.3 billion, with over 100 investors participating at both local and international levels. Although the bond was a general purpose corporate bond (green, social and sustainability bonds were nascent products at that time), the proceeds of the bond were intended to support RCBC's strategy to grow its SME and infrastructure lending. From IFC's investment, US$25 million was carved out specifically for renewable energy projects.

- IFC's investments in RCBC have exceeded the development impact targets for financial inclusion and sustainability set at the time of IFC's investments. As of December 31, 2020, RCBC's outstanding loans to SMEs amounted to US$1.1 billion (7,085 SME loans) from a baseline of US$0.19 billion (1,800 SME loans) as of 2009, which illustrates its strong commitment to increasing financial inclusion. In December 2020, RCBC became the first FI in the Philippines to pledge not to provide loans for coal projects,[6] achieving a Morgan Stanley Capital International (MSCI) Environmental, Social and Governance (ESG) "A" rating (upgraded to AA in February 2021),[7] and became the first Philippine FI to hit the US$1 billion equivalent mark in issuances of Green and Sustainable Bonds. RCBC also joined the Partnership for Carbon Accounting Financials (PCAF), which seeks to help financial institutions measure financed emissions to manage risk, identify ways of addressing GHGs, and report this as part of climate-related disclosures. RCBC was also one of two FIs globally to join in a pilot climate risk monitoring and reporting advisory engagement with IFC.

14. In 2013 IFC financed an independent asset fund manager's acquisition of a portfolio of RCBC's distressed assets through the Philippine Asset Growth One. This was, however, a part of IFC's Distressed Assets Recovery Program roll-out in Asia and not a direct investment in RCBC.

15. IFC has provided technical support to RCBC over the years in areas such as corporate governance, enhanced E&S support, Women in Banking, non-financial services for SMEs, agri-finance (with Rizal Micro Bank, RCBC's microfinance arm) and climate change. The most recent example of this began in January 2021, when IFC began supporting RCBC to build its capacity in the application and use of Climate Scenario Analysis using the Paris Agreement Capital Transition Assessment (PACTA) tool. The advisory engagement enabled RCBC to assess the alignment of its corporate loan portfolio with the Paris Agreement goals and define how it can further align its business activities and financial flows with these goals. Through IFC's support and introduction, RCBC became a member of the PCAF, as described above, which enables member financial institutions to assess and disclose GHG emissions of loans and investments in their portfolio. Moreover, in 2022, IFC will commence work with RCBC to implement the Climate Transition Stress Test, which will enable RCBC to measure its vulnerability to transition risks and the specific impact this has on asset quality. These initiatives on climate risk monitoring and reporting are the first such engagements by IFC in Asia and the Pacific.

16. In keeping with IFC's procedural requirement that precludes follow-on deals with clients with outstanding, unresolved material E&S concerns, IFC's last investment in RCBC was made in

---

[6] See RCBC Annual and Sustainability Report 2020, pg.129 (section on Environmental and Social Risk), under the heading "RCBC Sustainable Finance Strategy."

[7] SME loans are defined as loans from US$10,000 to US$2 million. The baseline was set for IFC's first investment in RCBC in 2011.

2015, when inadequate application of the PS remained a concern and a comprehensive ESAP was developed and agreed with RCBC. IFC has not pursued several opportunities to make additional investments in RCBC since then and has instead focused on supporting RCBC, through enhanced supervision and advisory work, to address the underlying E&S issues, including implementing the application of the PS to high-risk sub-projects.

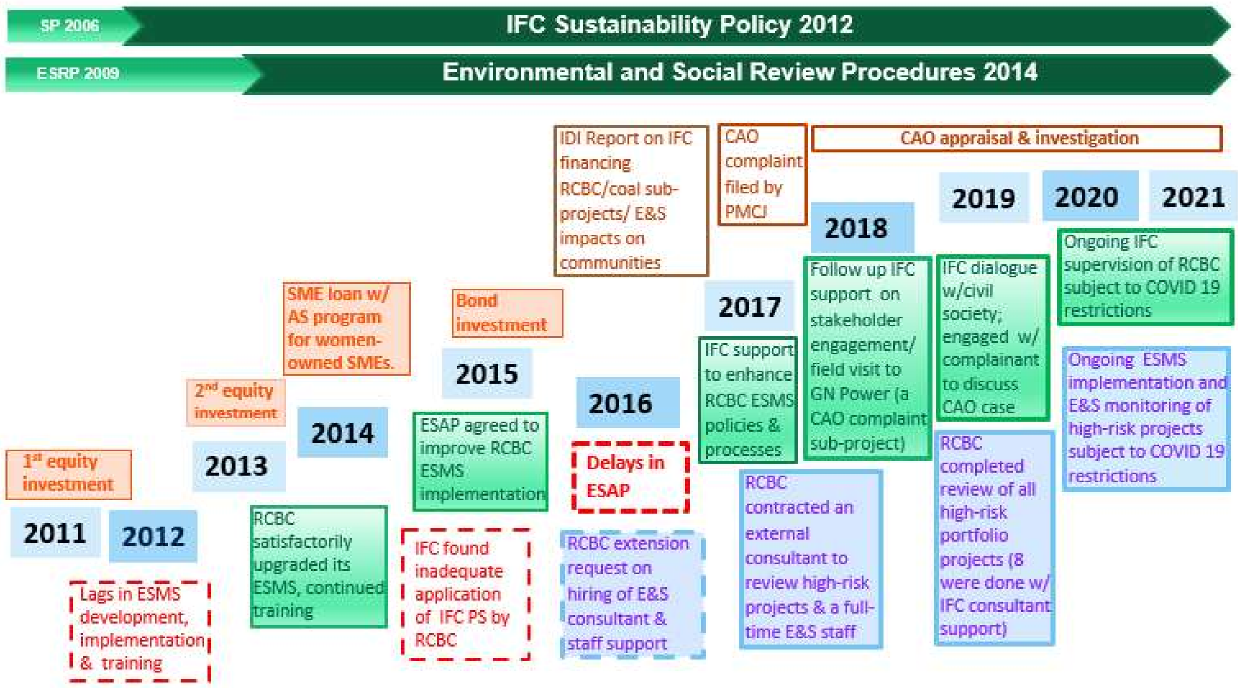
IFC E&S Requirements for RCBC and Key Contextual Considerations

17. It has proved challenging for some commercial banks based in emerging markets to apply IFC's PS to lending operations with high E&S risk. Common stumbling blocks include identifying suitably experienced E&S staff, allocating sufficient financial and staff resources over and above national industry norms, and managing a portfolio of sub-projects against the backdrop of a national financial sector at an early stage of adopting E&S risk management. IFC has also been building up its own capacity and resources over the years such that it can offer the kind of enhanced E&S support it is providing RCBC today, which was not possible in the earlier years of IFC's investment.

18. IFC's 2006 and 2012 Sustainability Policies, which have been applied to IFC's multiple investment projects with RCBC, required the client to develop and operate an ESMS to assess and manage E&S risks of its financing activities or sub-projects supported by IFC's investment. The ESMS was to function in accordance with IFC's Exclusion List, applicable national E&S laws and regulations, and, for activities with high E&S risks,[8] IFC's PS.

19. IFC's Environmental and Social Review Procedures (ESRP) describe in detail the processes for IFC staff to follow when conducting E&S pre-investment review and supervision of FI clients. While the Sustainability Policy and ESRP have been revised since IFC first invested in RCBC, the overall ESMS requirements for FI clients remained the same. IFC engaged in pre-investment due diligence in 2010 and post-investment monitoring and supervision since 2011 of RCBC in accordance with the Sustainability Policy and ESRP, including assisting RCBC to address the various challenges to implement IFC E&S requirements, particularly, applying IFC PS to its high-risk lending activities. The figure below shows the evolution of the applicable IFC Sustainability Policy and ESRP in parallel with the sequence of events of IFC investments and E&S engagement with RCBC.

[8] High-risk sub-projects, according to the categorization by RCBC, include both the Complaint sub-projects and some other non-coal related sub-projects.



20. A number of contextual factors explain the challenges RCBC faced, some of which also affected IFC's ability to adequately conduct its supervision function. These contextual factors are discussed in detail below.

21. ***ESMS for FIs:*** At the time of IFC's first investment in RCBC (2011), there was limited experience with the design and implementation of an ESMS by FIs in the Philippines, especially by commercial banks. In 2014, an IFC report detailing country baseline surveys found little awareness or understanding of E&S risks among FIs.[9] The primary movers on ESMS were development banks (e.g., Development Bank of the Philippines), which were conduits of assistance from multilateral financial institutions and international development agencies. These domestic banks were then required to apply foreign E&S risk assessments to lending programs, which also had to be aligned with their local practices, to comply with international standards. In order to overcome difficulties related to the design and implementation of an ESMS by FIs in the Philippines, IFC has supported the enabling policy environment and capacity building since 2012 by engaging with the Central Bank of the Philippines (*Bangko Sentral ng Pilipinas*, BSP) and several commercial banks, including RCBC, BDO Unibank Inc., and Bank of the Philippine Islands. The BSP issued its circulars on the Sustainable Finance Framework and Environmental and Social Risk Management Framework,[10] which now require commercial banks to manage E&S risks and impacts of their financing activities. Over time, IFC has witnessed RCBC develop and acquire experience in addressing ESMS challenges to meet the expectations of both IFC and the BSP.

22. ***Institutional Learning:*** IFC recognizes that there were notable delays in ramping up

[9] https://www.ifc.org/wps/wcm/connect/b00a0df5-0a3d-4503-b4f4-b11cca957316/ESRM-Report-Final.pdf?MOD=AJPERES&CVID=kjQI2Nj

[10] Sustainable Finance Framework Circular No. 1085 in 2020; Environmental and Social Risk Management Framework Circular No. 1128 in 2021.

RCBC's capacity to apply IFC's PS (particularly prior to 2015). IFC underestimated the challenge that RCBC faced in terms of its ability to strengthen its ESMS implementation to meet IFC requirements, as a client with limited prior experience and in the context of a regulatory environment where the concept of requiring banks to actively manage E&S risks was still a nascent one.

23. RCBC faced various obstacles in trying to apply the PS, which included: (i) delays while developing E&S guidance and internal processes from a very basic level; (ii) difficulties in rolling out an ESMS function across the organization; and (iii) difficulties in recruiting and training qualified E&S staff, partly due to limited availability of suitably qualified candidates. Despite these challenges, RCBC has shown willingness to take on recommendations to improve its ESMS over the years.

- While the initial RCBC ESMS policy was approved on January 2011 as a condition of IFC's original equity investment, the 2012 IFC annual E&S supervision indicated the need for significant improvement of the ESMS and staff capacity. As there were no consultants in the local market well-versed in IFC's ESMS and PS requirements to support RCBC at that time, IFC provided ad-hoc advice to RCBC during this period.

- In 2013, IFC required RCBC to revise its ESMS under the second equity investment. Although the 2013 IFC E&S annual supervision review found the revised ESMS document broadly satisfactory, it also recognized that RCBC had yet to fully implement the revised ESMS. The 2014 IFC annual E&S supervision and appraisal (for the proposed SME project) noted on-going ESMS implementation, continued staff training and improved quality of E&S assessment. However, as the updated ESMS was rolled out, no high-risk accounts were reviewed for PS compliance.

- The 2015 IFC annual supervision, which was combined with an Environmental and Social Risk Management (ESRM) Diagnostic, indicated that although RCBC had a satisfactory ESMS in place, RCBC's E&S due diligence (ESDD) was still not comprehensive enough from a technical standpoint and the IFC PS were not being applied in project finance & high-risk corporate finance business lines. These gaps were identified and addressed in a new and detailed ESAP under IFC's 2015 bond investment.

- Since 2015 and despite some delays,[11] RCBC has worked diligently to implement the 2015 ESAP and closed many of the previously identified gaps as well as other actions recommended by IFC.

24. ***Roles and Accountability:*** The Complaint involves sub-projects of an FI client (as opposed to an IFC direct investment). IFC is a shareholder and lender to RCBC, while RCBC is a syndicated loan participant in financing the coal-fired power plant sub-projects. According to IFC's

[11] External events: Another factor that disrupted RCBC's capacity to apply IFC's PS to high-risk transactions during the period covered by the Complaint was the Bangladesh Central Bank heist in 2016, which affected RCBC directly as the stolen funds were wired to RCBC and withdrawn by the perpetrators from the bank. This event diverted significant attention and resources of RCBC's management and board for several years. It also contributed to additional delay in implementation of the 2015 ESAP.

Sustainability Policy originally adopted in 2006 and updated in 2012,[12] IFC clients, including FIs, are responsible for managing E&S risks and impacts of sub-project investments in ways consistent with IFC E&S requirements. In this case, RCBC was responsible for conducting pre-investment ESDD for sub-projects, including identifying any gaps between national laws and IFC's PS as applicable to high-risk transactions, and assisting sub-projects to develop proper ESAPs to address these gaps.

25. With regards to the coal sub-projects, RCBC was a participant in a syndicated loan structure[13] involving other Philippine banks that follow national E&S regulations and typically do not accept third-party E&S requirements, such as IFC PS, in syndication agreements. This loan structure exacerbated RCBC's weak E&S risk management capacity particularly its ability to obtain sub-project E&S information from sub-borrowers and conduct proper ESDD. While the ESMS along with guidance materials had been developed and integrated into RCBC's credit process during the three years since IFC's first investment in 2011, the ESMS did not define a clear ESDD process on how to effectively apply the IFC PS in such situations where RCBC has limited leverage. In 2012, RCBC started investing in coal-fired power projects and by 2014 it had participated in syndicated financing of three of the Complaint Sub-Projects. The remainder were financed between 2015 and 2019.

26. ***Evolution of Coal-fired Power Plant Financing:*** While the World Bank Group has issued several guidance notes related to coal-fired power plants since 2010, these notes are mainly for traditional or direct financing instruments and do not apply to FIs. Financing coal-related sub-projects was not prohibited contractually by IFC investment agreements with FIs until the Green Equity Approach was announced in 2019.[14] RCBC's investment agreements with IFC predate the Green Equity Approach. During the time of IFC's investments in RCBC and up to the present, the country's power supply was heavily dependent on coal and therefore universal banks such as RCBC were almost all exposed to this sector to varying degrees. These power plants were the subject of detailed government evaluations to ensure their alignment with national power goals and were subject to the country's regulatory process, including complying with applicable national E&S laws and regulations.

E&S Appraisal & Supervision

27. IFC conducted E&S appraisals and supervision for RCBC, including assignment of appropriate E&S categories and applicable E&S performance requirements for all investments in RCBC. However, IFC underestimated the challenges and resources needed to improve the client's practices in the initial investments within a reasonable timeframe.

---

[12] https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Sustainability-Policy/

[13] Loan syndication occurs when a group of lenders (such as RCBC) comes together to fund various portions of a loan for a borrower.

[14] https://www.ifc.org/wps/wcm/connect/05541643-0001-467d-883c-5d7a127ffd57/IFC+Greening+Report+Sept+2020.pdf?MOD=AJPERES&CVID=nisvaOC&ContentCache=NONE&CACHE=NONE#:~:text=Under%20IFC's%20Approach%20to%20Greening,exposure%20to%20coal%2D%20related%20projects

28. As indicated above, prior to its investments in 2011, 2013 and 2015, IFC identified gaps in RCBC's E&S performance and defined ESAPs for each investment (no gaps were identified for the 2014 SME loan as the use of proceeds did not trigger application of IFC PS). IFC has worked with RCBC to strengthen its ESMS over the years. For example, the 2013 appraisal recognized that the client's portfolio was "dominated" by corporate loans, representing 70 percent of the portfolio, with more than 20 percent of the portfolio in sectors considered as high risk, and that the client had yet to fully implement its ESMS. With IFC guidance, RCBC then re-examined its ESMS and formally rolled out implementation of the updated ESMS in mid-2013.

29. While RCBC's ESMS included well-defined roles and responsibilities for carrying out the E&S procedures from mid-2013, IFC supervision of ESMS implementation in 2015 found that RCBC's ESDD focused on the IFC Exclusion List and national E&S requirements (i.e., IFC PS had not been adequately applied to high-risk lending activities, primarily due to a lack of E&S capacity). It has since become apparent that, capacity constraints aside, RCBC's ability and willingness to require sub-borrowers to meet IFC PS through investment agreements have also been affected by commercial considerations. IFC specifically discussed the issue of weak E&S capacity with RCBC and the need to build up its required competence to apply IFC's PS to high-risk lending activities. A list of improvement actions was proposed, which was later translated into an agreed ESAP for the bond project (#37489), including: (i) instituting a process of reporting to and oversight of the E&S by senior management and board; (ii) applying IFC's PS to project/corporate finance activities; (iii) conduct of due diligence for medium risk projects internally if bank has in-house capacity and for high-risk projects by qualified consultants following IFC's PS; (iv) continued E&S training; and (v) improvement of ESMS for better application of PS and external communications. Regrettably, this weak capacity extended to E&S risk management of the coal-fired power plants by RCBC, including limited access to sub-borrowers.

Enhanced E&S Support and Response to CAO Complaint (2015 to date)

30. Since the bond investment in 2015, IFC has more closely monitored RCBC's E&S performance and provided enhanced supervision support to RCBC to strengthen its ESMS implementation. When the bond project was negotiated in October 2015, IFC further required RCBC to implement a detailed ESAP that included actions such as hiring a qualified external E&S consultant to conduct a review of high-risk lending activities against the PS. IFC also proposed that RCBC use IFC's E&S advisory services should its implementation of the ESAP encounter delays or require additional assistance.

31. With IFC's guidance, RCBC hired an external consultant in 2017 who conducted a review of 1,090 accounts in RCBC's portfolio and validated the E&S categorization of all of them, completed the initial ESDD of three high-risk sub-projects in line with IFC's PS, and provided training to RCBC staff on E&S appraisal and stakeholder engagement. RCBC also recruited a senior technical E&S Officer to its ESMS core team in 2017 and an additional E&S risk officer to work on ESMS implementation and relevant sustainable finance reporting in 2020. Other enhanced support to RCBC by IFC included reviewing sample ESDDs provided, conducting training on stakeholder engagement, assisting RCBC in revising its external communication mechanism, advising on how to improve internal E&S reporting to management, and engaging with RCBC's board and senior management on E&S management and good industry practices such as the Equator Principles.

32. Since the 2017 CAO Complaint, IFC further intensified its engagement with RCBC, assisting it with additional E&S reviews of relevant sub-projects. IFC conducted a joint site visit with RCBC to one Complaint Sub-Project site, including re-examining RCBC's stakeholder engagement process. Additional joint E&S visits to Complaint Sub-Projects were planned with RCBC, but these had to be postponed due to a volcanic eruption and subsequently COVID-19 travel restrictions. At IFC's request, RCBC has provided periodic updates on its E&S actions with these sub-projects, noting the advancement in completing the corrective actions identified by RCBC's ESDDs.

33. In early 2019, IFC organized a stakeholder engagement event to share information on IFC's investment strategy in the Philippines. Sixteen Philippines-based CSOs attended, including PMCJ. These CSOs were working on climate and resilience, conservation, women and gender, education, social accountability, and policy advocacy. The dialogue was part of the IFC strategy to jumpstart engagement with CSOs in the region, clarify IFC's role in development and find shared priorities and avenues for collaboration. IFC organized a separate meeting with PMCJ to hear its concerns related to the CAO Complaint and continued to maintain contact by inviting PMCJ to subsequent consultations particularly for their views on this Management Response and the MAP.

ESMS Performance Today

34. IFC's recent supervision indicates that RCBC has been making steady improvements in ESMS implementation and is committed to implement and comply with IFC E&S requirements. The table below summarizes the ESMS improvement trajectory of RCBC in several key areas of a functioning ESMS.[15]

Key Elements of ESMS	Prior to 2011	2011-2013	2014-2016	2016-2018	2019 onwards
ESMS Function (including officer in charge)	No	Yes	Yes	Yes	Yes
Dedicated full-time E&S staff	None	None	None	1	2
Using E&S consultant as needed	No	No	No	Yes	Yes
E&S commitment and policy statement	No	Yes	Yes	Yes	Yes
ESMS procedures and supporting tools	No	Partially	Fully	Fully, updated	Fully, updated
Compliance with national laws	Yes	Yes	Yes	Yes	Yes
Compliance with IFC Exclusion List	No	Yes	Yes	Yes	Yes
Implementation of	No	No	Basic	Basic	Basic screening

[15] The total cost to RCBC in making these improvements is estimated to be over US$1 million. Similarly, IFC estimates that it has invested no less than that same amount in staff time and consultant resources to monitor the bank's ESMS implementation and guide the ESMS improvement, including supervision and enhanced support.

IFC PS			screening	screening	and application to high-risk sub-projects

35. RCBC, with IFC guidance and support, has completed the actions in the latest ESAP which was agreed with IFC for the 2015 bond investment. In particular, as part of its PS application/learning and portfolio monitoring, RCBC completed the additional ESDD reviews of the Complaint Sub-Projects and has used its best efforts to close the gaps identified and achieved tangible results at several of them. RCBC's ESMS has been integrated into its credit cycle and decision-making process. The ESMS includes written procedures requiring screening against: (i) the IFC Exclusion List, (ii) applicable national laws, and (iii) IFC's PS. It includes categorization and well-defined roles and responsibilities for carrying out the E&S procedures. All credit applications must undergo a preliminary assessment by Relationship Managers, who use a template to screen against government regulations and key aspects of the IFC PS. For proposed sub-projects categorized as A or B, Relationship Managers confirm that relevant government permits have been issued and E&S Officers verify their categorization and compliance with applicable national laws and regulations and applicable IFC PS.

36. For high-risk activities, RCBC's ESMS requires that an E&S Officer (or external consultant) conduct site visits to ensure proper mitigation measures are in place to close E&S compliance gaps. The E&S Officer is also responsible for confirming or revalidating existing projects during the annual review cycle. Monitoring of E&S performance is conducted by RCBC's portfolio monitoring unit, which prepares quarterly portfolio E&S updates for its board and senior management.

37. However, while RCBC has established a proper organizational structure and process for ESMS implementation, including a dedicated E&S team applying IFC PS during ESDD, the bank still lacks a mechanism for addressing PS compliance gaps and incorporating associated requirements into borrower contractual agreements. Further, the ESMS needs to define a clearer ESDD process to address situations where it has limited leverage to manage E&S risks properly, such as in syndicated loan structures. These gaps have been recently discussed with RCBC and will be addressed through the implementation of the MAP agreed with RCBC.

III. CAO CASE

The Complaint

38. In October 2017, CAO received a complaint from PMCJ – with support from two international NGOs, IDI and BIC – on its own behalf and on behalf of communities living in proximity to 19 active or proposed coal-fired power plants in the Philippines. The Complaint alleged that RCBC's financing of the coal-fired power plants was contributing to serious environmental and social harm or was likely to cause such harm once the plants became operational. The Complaint was made at a time when local and international NGOs were advocating for an end to coal projects in the Philippines and pressuring financiers of these projects to cease their financial support to such projects. Although several other co-financiers of the coal sub-projects cited in the Complaint have been subject to "no-coal" advocacy campaigns, none of them apart from RCBC are named in the Complaint due to IFC not having any equity exposure in them..

39. The Complaint raised the following E&S concerns: (i) community-level E&S risks and impacts of the power plants; (ii) the plants' impact on climate change; (iii) the client's approach to managing E&S risks; and (iv) IFC's monitoring of the client and transparency of its FI portfolio. Alleged local E&S risks and impacts, as presented in the Complaint, include:[16]

- *Absence of, or inadequate, public consultations and grievance mechanisms:* The Complainants claimed they were not properly informed or consulted about the power plants in their localities and were also not aware of grievance mechanisms where affected communities could raise concerns and have them addressed;

- *Water and air pollution by coal ash, impacting community health:* The Complainants claimed impacts on respiratory health and skin irritations they believed to be caused by coal ash contamination of air and water;

- *Involuntary resettlement, with inadequate compensation or conditions:* The Complainants alleged that communities were displaced to make way for the power plants, with inadequate compensation and poor conditions at resettlement sites;

- *Impacts on livelihoods of farmers and fisherfolk:* The Complainants alleged livelihood impacts due to contamination of crops by coal ash, pollution of sea and fisheries, and in a few cases due to physical displacement;

- *Impacts on biodiversity:* Biodiversity concerns included plant impacts on mangroves, coral reefs, seaweed, and fish habitats, among others;

- *Acquisition of indigenous land and displacement:* The Complainants alleged displacement of Indigenous Peoples without Free, Prior and Informed Consent (FPIC), and limitations on Indigenous Peoples' access to indigenous land.[17]

[16] CAO Compliance Investigation Report, pgs.17-18.
[17] CAO Compliance Investigation Report, pgs.17-18 (November 19, 2021).

Summary of CAO Process

40. In March 2018, CAO determined that altogether 11 of these coal-fired power plants met CAO's eligibility criteria.[18] A list of these Complaint Sub-Projects is provided in Annex B. Between November 2017 and April 2019, CAO conducted an assessment to gather information and to determine whether the Complainants, RCBC and sub-project operators would be interested in pursuing a dispute resolution process facilitated by CAO, or whether the Complaint should be handled by CAO's compliance function for appraisal of IFC's performance.

41. As the parties did not agree to engage in a CAO-facilitated dispute resolution process, in accordance with CAO's Operational Guidelines, the Complaint was referred to CAO compliance function in April 2019 for appraisal of IFC's performance. In October 2019, CAO completed its compliance appraisal and referred the case to compliance investigation.

42. CAO shared its preliminary conclusions in December 2020 and provided a draft compliance investigation report in June 2021, for which IFC conducted a factual review and provided CAO with written feedback in August 2021. On October 27, 2021, CAO and IFC held a meeting to discuss feedback on the findings and recommendations from the draft investigation report.

43. CAO revised and provided its final Compliance Investigation Report to IFC on November 19, 2021. The CAO Report divided its analysis and findings into three areas: (i) IFC pre-investment review (2010-2011); (ii) IFC's pre-investment review of additional investments (2012-2015), IFC's general supervision (2011-present), and IFC's response to the CAO Complaint; and (iii) IFC's approach to its RCBC investments with reference to climate change commitments. The Report also included recommendations as briefly discussed below.[19]

CAO Recommendations and IFC MAP Considerations

44. The CAO Report includes recommended detailed actions for the development of IFC's MAP (listed in Annex G of the CAO Report, pgs.113-114). While most MAP actions correspond closely to CAO recommendations, there are certain differences. A summary of the main CAO recommendations and IFC considerations are outlined below.

45. ***ESMS Implementation:*** With regards to RCBC's implementation of the ESMS, CAO recommends that IFC require RCBC to contractually commit to a revised ESAP with specific provisions. These include: (i) engaging sufficient qualified staff to apply the PS across RCBC's portfolio and to high-risk financing; (ii) developing template loan agreements, ESAPs and ESDD for high-risk business, such that borrowers commit to both national law and IFC's PS; (iii) agreeing to no new or renegotiated financing of coal-fired power generation and full compliance with the PS; and (iv) conducting E&S audits of all Category A sub-projects, identifying gaps between national law and IFC E&S requirements.[20]

[18] RCBC has outstanding exposure only to 10 of these sub-projects. While it had an undisbursed loan facility to the Atimonan sub-project, the loan commitment was canceled by RCBC in 2019.
[19] CAO Compliance Investigation Report, pg.22 (November 19, 2021).
[20] CAO Compliance Investigation Report, Annex G, pg.113 (November 19, 2021).

46. ***IFC Considerations:*** IFC holds the same objectives as CAO in strengthening RCBC's ESMS implementation and accepts these recommendations in general. IFC has proposed specific actions in the MAP, following consultations with both RCBC and the Complainants, to address ESMS implementation with a focus on PS application to high-risk sub-projects. The MAP provides for some flexibility in how the IFC PS will be captured in RCBC's investment agreements, based on RCBC's feedback on practical challenges it faces. Instead of conducting an audit of all existing Category A sub-projects to identify gaps between national law and IFC E&S requirements, IFC has instead proposed a review of existing Complaint Sub-Projects' compliance to identify PS gaps and will provide guidance to RCBC to address these. IFC will monitor more closely the performance and quality of RCBC's ESMS implementation with respect to both existing and future high-risk sub-projects.[21]

47. ***E&S Gap Analysis/Complaint Sub-Projects:*** CAO recommends that IFC support RCBC in conducting an independent E&S gap analysis for each coal-fired power plant under the Complaint, including: (i) consultations with project-affected communities, (ii) a review of sub-project investment agreements to verify PS inclusion; and (iii) public disclosure of any sub-project corrective actions. CAO also offers suggestions in case a power plant operator does not agree to the above, such as IFC commissioning third-party ambient air quality and water quality measurements at suitably selected locations outside the plant and that IFC work with RCBC (and the Complaint Sub-Projects) to assess harm and remediate impacts in keeping with the PS.[22]

48. ***IFC Considerations:*** IFC has agreed to support the gap analysis and provide recommendations to RCBC, sub-borrowers of RCBC and other lenders involved in financing these Complaint Sub-Projects to better assess and mitigate E&S risks and impacts. However, IFC does not plan to publicly disclose any proposed Complaint Sub-Project corrective actions unless such disclosure is approved by the relevant asset owners or operators, as these Complaint Sub-Projects are operated by entities with which IFC has no direct business relationship and which fall outside of the scope of IFC's Access to Information Policy. IFC also does not plan to commission third-party monitoring outside of Complaint Sub-Project boundaries should plant operators not be in agreement with the gap analysis process, for the same reasons. Instead, IFC proposes to seek such monitoring data from the appropriate authorities or other sources.

49. ***GHG Emissions and Onsite Energy Efficiency Evaluation:*** CAO recommends that IFC finance an evaluation of each coal-fired power plant with the objective of recommending costed efficiency improvements, among others, to reduce CO2 emissions so as to be consistent with IFC's PS3 and Environmental, Health and Safety Guidelines.[23]

50. ***IFC Considerations:*** IFC will support RCBC in commissioning energy efficiency/ GHG emissions reduction audits for these coal-fired power plants consistent with the CAO recommendation, but also notes that the ability to do so will depend on RCBC getting agreement from interested sub-project owners/operators for the onsite audits. IFC has no contractual relationship with these parties.

---

[21] The high-risk sub-project portfolio will not have any coal-related sub-projects in future, given RCBC's implementation of its no-coal policy commitment.
[22] CAO Compliance Investigation Report, Annex G, pgs.113-114 (November 19, 2021).
[23] CAO Compliance Investigation Report, Annex G, pg.114 (November 19, 2021).

51. ***Addressing Underlying Factors & Non-compliance:*** To address underlying causes of the findings, CAO recommends that IFC: (i) conduct an E&S and financial assessment of FI clients, including costs, benefits, and operational implications; (ii) ensure systems are in place prior to disbursement to verify a FI client is implementing an ESMS according to the PS; (iii) systematically support FI clients, including prior review of high-risk sub-projects, where weak capacity exists; (iv) require public disclosure on IFC's website of FI sub-projects that should apply the PS (as is the case in private equity investments); and, (v) consider requiring FI clients to measure and report to IFC on GHG emissions, including following good practice standards (e.g., Greenhouse Gas Protocol).[24]

52. ***IFC Considerations:*** IFC has made significant improvements in its FI operations in the years since it made the first investment in RCBC (e.g., strengthened internal capacity, enhanced appraisal and supervision process, increased investment selectivity, and focus on instruments with defined use of proceeds, etc.) and is now implementing further initiatives (e.g., sub-project disclosure) as part of its continued improvement efforts and in the context of commitments made for the Capital Increase and in response to the External Review recommendations. These broader efforts and initiatives address the CAO recommendations and are not included in the MAP, which is specifically related to RCBC, an IFC client. CAO, however, verifies implementation of these improvements as part of its monitoring process related to the CAO FI sectoral audit report of 2012.[25] Nevertheless, the MAP includes two sector-wide actions that are relevant to the CAO recommendations; which are: IFC will: (1) develop a dedicated good practice note (GPN) for FIs on assessment of GHG gases in sub-projects to be financed; and (2) develop a GPN for FIs covering sample E&S covenants to be included in loan agreements.

53. Overall, following external consultations that included RCBC, the Complainants and CSOs, as well as IFC internal consultations, the proposed MAP takes into account factors such as IFC's leverage with RCBC, RCBC's existing capacity and leverage *vis-a-vis* sub-project operators, as well as IFC's role according to the Sustainability Policy. The proposed MAP also considers factors such as the costs and practical implementation of proposed actions. In some cases, IFC is already implementing initiatives mentioned in CAO's recommendations, such as working to strengthen the FI sector's E&S risk management capacity. In essence, IFC is proposing more targeted systematic interventions that will complement existing initiatives and address overall CAO findings, and that can be readily adopted by FI clients. Finally, IFC's MAP proposes actions that are feasible and measurable (see MAP for details).

---

[24]CAO Compliance Investigation Report, Annex G, pgs.114-115 (November 19, 2021).

[25] CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries (2012). https://www.cao-ombudsman.org/sites/default/files/downloads/Audit_Report_C-I-R9-Y10-135%20%281%29.pdf

IV. MANAGEMENT RESPONSE TO CAO FINDINGS

IFC's Pre-Investment Review and Risk Mitigation Measures

54. Management appreciates CAO's detailed review of the E&S issues in this case. IFC acknowledges the challenging circumstances related to E&S risk management by FIs in the Philippines, but it has sought opportunities to effect positive change in E&S practices in the sector. While IFC recognizes RCBC's limitations in E&S risk management in this case, it wishes to emphasize RCBC's improvements in many areas, such as strengthening its capacity to implement ESDD requirements for all its lending activities, along with the critical role IFC has played in RCBC's ESMS evolution in recent years.

55. IFC recognizes the concerns related to high-risk sub-projects and syndication sub-projects, particularly as they relate to climate impacts in this case. IFC continues to work with clients such as RCBC to monitor climate impacts and seeks to minimize, if not eliminate, the risk of similar climate impacts related to future FI transactions.

Summary of CAO Findings (CAO Report, pg. 23): Finding 1

CAO finds that IFC correctly classified the investment as FI and applied the appropriate E&S requirements (Sustainability Policy, para. 18).

56. Management agrees that IFC correctly categorized the investment as FI and applied the appropriate E&S requirements (Sustainability Policy, paragraph 18).[26]

Summary of CAO Findings (CAO Report, pg. 24-25): Finding 2

CAO finds that IFC deviated from the ESRP requirement to ensure that identified ESMS implementation gaps (in this case, the establishment and implementation of an ESMS from the start) were addressed prior to disbursement. As a result, IFC's leverage to meet the requirements of the Sustainability Policy in relation to its investment in RCBC was reduced.

57. Management agrees with this finding. There was an ESRP requirement that any E&S gaps be closed prior to investments with high-risk sub-projects. RCBC developed key elements and mitigation measures of the ESMS prior to IFC commitment/disbursement (i.e., nomination of ESMS officer, ESMS policy development, formalization of ESMS implementation plan, and development of ESMS procedures and implementation guidelines), but other actions such as developing ESMS procedures and implementation guidelines were to be completed 120 days after the commitment, which was common practice for new clients.

[26] CAO Compliance Investigation Report, Finding No.1, pg.23 (November 19, 2021).

Summary of CAO Findings (CAO Report, pg. 25): Finding 3

CAO finds that IFC's 2011 investment agreement did not reflect the ESRP requirement to retain the right to review its client's first few financing activities to ensure robust ESMS implementation (contrary to ESRP 2009, 7.2.10).

58. Management agrees with this finding. IFC's appraisal documentation did not include identified high-risk E&S activities at the initial stage of the investment and did not explicitly require IFC review rights of the first few financing activities of the client.

Summary of CAO Findings (CAO Report, pg. 25): Finding 4 CAO finds that IFC's decision documentation does not present to the Board all material facts related to the E&S risks associated with this investment that the Board required in order for it to reach an informed decision (contrary to IFC Operational Procedures: New Business (para VIII.2.A.2, 2009)).

59. Management agrees that the documentation presented to the Board did not include all material facts related to the E&S risks as required and information such as sectoral-level exposure was not included.

Summary of CAO Findings (CAO Report, pgs. 25-26): Findings 5 & 6

CAO finds that IFC's pre-investment review did not provide a basis to expect that the client would meet IFC's E&S requirements over a reasonable period of time (contrary to the Sustainability Policy, para. 17).

As a result, CAO finds that IFC's investment in RCBC was at risk of supporting projects with significant adverse E&S impacts that would not meet the requirements of IFC's Performance Standards.

60. Management agrees, with caveats, with the finding that IFC's pre-investment review did not generate well-founded expectations that the client would meet IFC's E&S requirements over a reasonable period of time. This is a scenario that IFC faces on a regular basis in emerging markets, especially as it increasingly seeks to work with clients that may be starting from a low E&S performance base vis-à-vis international E&S standards. IFC sought to enhance RCBC's capacity, agreeing with it on an ESAP that required upfront commitments, such as: (i) appointing an E&S officer, (ii) adopting a board-approved E&S policy; and (iii) adopting an ESMS implementation plan. As mentioned in the contextual considerations earlier, IFC underestimated the time and resources needed for implementing a satisfactory ESMS for such a bank with a diverse lending portfolio, and allowed other key E&S actions to be completed after commitment. This has been an important lesson from this case. While IFC's E&S appraisal was aligned with the requirements at the time, the scope and outcomes of the appraisal and supervision for the initial investment would not be considered adequate for similar projects appraised today. IFC has now developed more E&S guidance tools, offers greater dedicated resources for assessing E&S risks of a potential FI client's

portfolio,[27] and strengthened its guidance to support the client to implement IFC's E&S requirements.[28]

61. Management agrees with the finding that IFC's investment in RCBC was at risk of supporting projects with significant adverse E&S impacts. However, with regards to CAO's consideration that "the client had a *large portfolio of loans* to businesses in sectors with significant E&S risks,"[29] Management observes that at the time of this investment, RCBC's main sector or industry exposure consisted of manufacturing, real estate, wholesale and retail trading, utilities (electricity, gas and water), transportation, and financial intermediary investments. The utilities sector, which was considered as high E&S risk, represented 13 percent of RCBC's loan portfolio.

62. While it is not listed as a specific finding, Management disagrees with CAO's analysis that "IFC did not demonstrate engagement with the client on the challenges associated with applying E&S requirements...."[30] On the contrary, IFC heightened its engagements on E&S risk management with RCBC since 2011, with a joint field appraisal, a loan portfolio review, an E&S review, and a corporate governance assessment. Further engagement followed in 2015-2018 when IFC observed how challenging it was providing for RCBC to implement certain requirements.

63. Management recognizes that the ESAP was not combined with the structured Advisory Services support necessary to implement IFC's E&S standards,[31] as is often the case today, though the ESMS plan did require RCBC to initiate its own training and IFC engaged with the client on numerous occasions after commitment to support its E&S training efforts, in addition to helping RCBC identify and procure a qualified consultant to conduct ESMS and PS training. The level of support required by RCBC was unusually high for an IFC FI transaction and IFC had limited FI support capacity available in the early years of the supervision process, such that training support offered was somewhat more *ad hoc* than would be the case today.

[27] Since 2008, the seniority and number of E&S specialists covering IFC's investments in FIs has increased –including three dedicated regional FI Sector Leads, a Global Sector Lead and dedicated FI E&S Risk Officers.

[28] In 2018, IFC issued a revised Interpretation Note on FIs, which clarified the scope of PS application to FIs – introducing issue-based triggers rather than financial thresholds. This was intended to simplify the process of identifying high-risk sub-projects for FIs to enable them to target enhanced risk management at the appropriate investments.

[29] CAO Compliance Investigation Report, pg.25 (November 19, 2021).

[30] CAO Compliance Investigation Report, pg.25 (November 19, 2021).

[31] CAO Compliance Investigation Report, pg.25 (November 19, 2021).

IFC Supervision – Supervision and Investments in 2013 & 2015

IFC's 2013 Investment

Summary of CAO Findings (CAO Report, pg. 29-30): Findings 7 (a), (b), (c) & (d)

(a) CAO finds that IFC's 2013 pre-investment review did not provide IFC with a basis to conclude that the client would meet IFC's E&S requirements within a reasonable period of time (contrary to the Sustainability Policy, para. 22).

(b) As with the 2011 investment, CAO finds that IFC's 2013 investment did not meet the requirement to close identified gaps in the client's ESMS before commitment or as a condition of disbursement (contrary to ESRP 2009, 7.2.19). As a result, IFC's leverage to meet the requirements of the Sustainability Policy from its additional investment in 2013 was reduced.

(c) CAO finds that IFC did not subsequently disclose the status of ESAP implementation (contrary to para. 41(b) of IFC's Access to Information Policy).

(d) CAO finds that as with the 2011 investment, IFC's 2013 investment in RCBC was at risk of supporting projects with significant adverse E&S impacts that would not meet the requirements of the IFC Performance Standards.

64. ***(a)*** Management agrees that its 2013 pre-investment review did not provide sufficient evidence to expect that RCBC would meet IFC's E&S requirements within a reasonable period of time.

65. ***(b)*** Management agrees that as with the 2011 investment, IFC's 2013 investment did not meet the requirement to close identified gaps in the client's ESMS before IFC's commitment or as a condition of disbursement. However, IFC did take steps to improve and accelerate the full implementation of measures for RCBC to meet IFC's E&S requirements. IFC developed an ESMS plan that was included in the Amended and Restated Policy Agreement for RCBC to improve implementation by taking specific actions: (i) submission of detailed implementation plan (condition precedent to commitment); (ii) revised credit policy (condition precedent to commitment); (iii) ESMS full implementation (six months from commitment); and (iv) staff training. Given its weak ESMS implementation capacity, RCBC was unable to fully carry out these actions to meet IFC's E&S requirements.

66. ***(c)*** Management agrees that IFC has not updated its disclosures to include information on ESAP implementation as required by the Access to Information Policy. IFC will enhance its systems so that relevant E&S information during project supervision is made available, if applicable and where required, in a timely manner, and that project status is correctly reflected on IFC's disclosure website.

67. ***(d)*** Management agrees that as with its 2011 investment, IFC's 2013 investment had not received sufficient evidence of ESMS implementation prior to the investment. While IFC required RCBC to fully implement an amended ESMS, the requirement was not made a condition of subscription. However, IFC did take steps to improve and accelerate the full implementation of

measures for RCBC to meet IFC's E&S requirements. IFC developed an ESMS plan that was included in the Amended and Restated Policy Agreement for RCBC to improve implementation.

IFC's 2015 Investment

Summary of CAO Findings (CAO Report, pg. 34): Findings 8 (a) & (b)

(a) CAO finds that IFC's 2015 pre-investment review did not provide IFC with a basis to expect that the client would implement IFC's Performance Standards within a reasonable time period (Sustainability Policy para. 22).

(b) As with the 2011 and 2013 investments, IFC's 2015 investment did not meet the requirement to close identified gaps in the client's ESMS before IFC's commitment or as a condition of disbursement (contrary to ESRP (2014, 7.3.4.4)). As noted by IFC, the client's E&S performance would remain an unqualified risk for some time to come. As a result, IFC's leverage to ensure outcomes expected by the Sustainability Policy was reduced.

68. ***(a)*** Management agrees that IFC's 2015 pre-investment review did not provide IFC with a well-founded expectation that the client would implement IFC's PS within a reasonable time period.

69. ***(b)*** Management agrees that IFC's 2015 investment did not close identified gaps in the client's ESMS before IFC's disbursement. Based on IFC's supervision prior to this investment, IFC identified that the PS were not yet adequately applied to high-risk sub-projects and flagged this in the Board paper. [32] IFC believed that it would likely take time to resolve this issue. Recognizing this, IFC proposed that RCBC utilize advisory services to ramp up its PS implementation capacity if there was a delay in implementing the ESAP. Unfortunately, identified gaps in the client's ESMS were not closed before IFC's commitment or as a condition of disbursement, contrary to the ESRP (2014, 7.3.4.4), chiefly because it did take longer than hoped to implement the ESAP. IFC had introduced a new requirement in 2015 preventing further investments in portfolio clients with E&S concerns, however the RCBC bond transaction was approved as an exception to this rule due to the fact that work on it pre-dated the new requirement. Subsequently, the requirement has meant that there have been no further investments in RCBC as a result of E&S concerns not yet having been fully addressed.

Summary of CAO Findings (CAO Report, pg. 34): Finding 9

CAO finds that IFC did not disclose the ESAP in full or provide an adequate summary of key measures, and IFC has not subsequently updated its disclosure regarding the status of ESAP implementation (contrary to paras. 31 (b)(iii) and 41 (b) of the Access to Information Policy.

70. Management agrees with this finding, with a caveat. Sharing summaries of the key E&S mitigation measures has been a standard practice for FI projects. In this specific instance the disclosed ESAP only partially summarizes key mitigation measures. Subsequently, IFC did not update its disclosure regarding the status of ESAP implementation.

[32] 2015 Board Paper noted: "The recent supervision confirmed that IFC Performance Standards have not yet been adequately applied to its high-risk lending activities."

71. Management agrees to review this practice insofar as it concerns FI program-level discussion, including consultations with the client on updating previous disclosures. As with the response to CAO Finding 7 (c) above, this will also require addressing technical issues to allow for content updates on a new IFC disclosure platform, as well as agreeing with RCBC on changes to disclosed information as per IFC's Access to Information Policy.

IFC General Supervision

Summary of CAO Findings (CAO Report pgs. 39-40): Finding 10 (a) & (b)

(a) CAO finds that over the course of ten years since IFC made its first investment, IFC has not verified that the client (i) is operating its ESMS as envisaged at the time of IFC's pre-investment review or (ii) is applying the IFC Performance Standards to its high-risk sub-projects (ESRP 2009 and 2014, para. 9.2.5/6).

(b) IFC has made multiple investments in a commercial bank in the Philippines that is financing projects with high levels of E&S risk without assurance of PS compliance. Further, available evidence suggests that through its investment in RCBC, IFC has exposure to high-risk projects without assurance that they are operating in accordance with IFC Performance Standards, with likely adverse impacts on communities and the environment.

72. ***(a)*** Management agrees with this finding, with caveats, since IFC has documented improved client E&S performance in recent years,[33] including the client's implementation of its ESMS. In fact, the CAO Report recognizes IFC's Enhanced Client Support (ECS) program, which enabled RCBC to take necessary steps, with IFC enhanced support, toward achieving E&S performance improvements. The ECS was particularly focused on building up adequate capacity for RCBC to apply IFC's PS to its high-risk lending activities (in line with the 2012 Sustainability Policy). The CAO Report acknowledged "positive outcomes" from the ECS such as the hiring of independent consultants in 2017, which demonstrated that "[f]or the first time…the client had dedicated E&S support and in-house E&S specialist staff."

73. ***(b)*** Management notes that IFC made multiple investments in RCBC between 2011 and 2015, as the investments were aligned with the country strategy and had high development impact, and because RCBC showed willingness to take on IFC's recommendations, albeit in a delayed manner. Management also notes that IFC's current supervision of RCBC's ESMS implementation reflects progress in its alignment with IFC's PS as regards screening and conducting E&S review for high-risk sub-projects and identification of E&S corrective measures. IFC will continue to verify that the client is implementing an ESMS as envisaged at the time of IFC's appraisal and is adequately applying relevant PS to its high-risk sub-projects, not only in terms of E&S screening and identification of corrective measures but also in terms of requiring formal transmission of PS-related corrective measures to high-risk borrowers through binding instruments. This includes RCBC identifying best practice approaches to applying the PS in situations where it may have limited capacity and/or leverage.

IFC Response to Issues Raised in the CAO Complaint

[33] CAO Compliance Investigation Report, pg.39 (November 19, 2021).

Summary of CAO Findings (CAO Report, pg. 40-41, 45): Finding 11 (a) & (b)

(a) Upon review of available evidence in relation to the issues raised in the Complaint and considering relevant Performance Standard requirements, CAO concludes that at the sub-project level the following adverse impacts and outcomes raised in the Complaint are very likely or rather likely: (i) adverse health impacts due to air pollution or water contamination from coal ash at six power plants; (ii) impacts on livelihoods due to coal ash contamination at five power plants and due to physical or economic displacement at two power plants; (iii) displacement and resettlement related impacts at two power plants; (iv) threats against, and intimidation of, community activists in relation to four power plants; and (v) inadequate stakeholder engagement and consultation, including lack of grievance mechanisms, at all power plants.

(b) CAO finds that the adverse E&S impacts of the RCBC funded coal-fired power plants that CAO concludes to be likely or rather likely are of a significant nature and require urgent assessment and mitigation following IFC's Performance Standards.

74. ***(a)*** While Management agrees that the general types of impacts listed in CAO's findings, such as resettlement and air quality impacts, are frequent in large-scale thermal energy projects, IFC wishes to emphasize two caveats: (i) under IFC's supervision requirements, RCBC's ESMS implementation included a 2019 review of high-risk sub-projects, which identified no material E&S impacts that could pose significant risks to the environment or communities; and (ii) CAO was not able to validate the allegations made in the Complaint, nor has CAO established whether the alleged impacts may have been related to the type of E&S requirements applied (i.e., whether the nature or scale of alleged E&S impacts would have differed depending on whether national laws or IFC PS were applied).

75. ***(b)*** Management agrees that addressing the adverse E&S impacts of these coal-fired power plants is an important matter.[34] Recognizing the challenges faced by RCBC, actions in IFC's proposed MAP will look further into these issues and will assist RCBC to develop a strategy of engaging with sub-project lead arrangers/syndicated lenders/consulting engineers/operators to identify and promote strategies for addressing any such impacts.

Summary of CAO Findings (CAO Report, pg. 45): Finding 12

CAO finds that IFC's response to the issues raised in Complaint has not provided assurance that the client has applied IFC E&S requirements to the coal-fired power plants it financed as required by the ESRP 2014 (para. 9.2.5).

76. Management agrees, with caveats, that IFC's response to the issues raised in the Complaint did not provide assurance that the client applied IFC's E&S requirements to the coal-fired power plants (as required by ESRP 2014). In response to the CAO Complaint, IFC emphasized the importance to RCBC of completing Environmental and Social Monitoring Reports (ESMRs) for the Complaint Sub-Projects and contracted a consultant to visit one of the coal-fired power plants. Also,

[34] Based on publicly available information, the contribution of coal to power generation in the Philippines was 44.5 percent in 2015. RCBC's financing of the Complaint Sub-Projects' power plants occurred through its participation in syndicated loans. It is, however, correct that long-term financing of coal-fired power plants should have been assessed by RCBC against IFC's PS, including requirements on GHG emissions, prior to RCBC's commitment.

post-disbursement, RCBC conducted E&S assessments for the Complaint Sub-Projects based on available information and site visits where it could arrange these. RCBC has been following the PS and has tried to engage with Complaint Sub-Project borrowers to close identified gaps although these gaps and the monitoring of such were not incorporated into sub-project legal agreements. It has made tangible achievements with some Complaint Sub-Projects. As part of the MAP, IFC will review available E&S assessments, including ESMRs, and examine any updates from RCBC on the Complaint Sub-Projects compared against IFC's PS.

IFC's Investments and Climate Change Commitments

Summary of CAO Findings (CAO Report, pg. 49): Finding 13

CAO finds that, while making multiple investments in RCBC, IFC did not assess either (i) the client's exposure to sub-projects with significant GHG emissions; or (ii) the client's commitment and capacity to manage this exposure in accordance with PS3, which includes requirements to measure GHG emissions and evaluate technical and financially feasible options to reduce or offset GHG emissions (contrary to Sustainability Policy 2006, para.11, and 2012, para. 7). Furthermore, while the World Bank Group implemented additional criteria, which raised the bar for it to finance coal-related projects, there is no evidence these criteria were applied to IFC's investments in RCBC.

77. Management disagrees with this finding specifically with reference to the FI sub-project GHG emissions reporting as it is currently only required for IFC direct investment according to IFC's Sustainability Policy (para.11). In addition, the World Bank Group criteria as addressed in the 2013 WBG Energy Strategy Paper are focused on direct investments, not investments through financial intermediaries. As mentioned before, in 2019, IFC introduced an FI Green Equity Approach as an effort to address risks associated with coal-related sub-projects.

78. At the market level, IFC has supported various sustainable financing initiatives in both public and private sectors in the Philippines. The most recent one supported the BSP's issuance of circulars on a Sustainable Finance Framework and an Environmental and Social Risk Management Framework,[35] by which the BSP seeks to create an enabling environment for all commercial banks to follow good industry practices to manage the E&S risks and impacts of their financing activities.

Summary of CAO Findings (CAO Report, pg. 50): Finding 14

CAO finds that shortcomings in IFC's review and supervision of its investments in RCBC have contributed to an outcome whereby RCBC has co-financed the construction of multiple coal-fired power plants which emit a significant amount of CO_2, without sufficient evidence that they will operate in accordance with IFC's requirements to reduce greenhouse gas emissions.

79. Management is concerned with the level of CO_2 emissions from the coal-fired power plants which were co-financed by RCBC and agrees that RCBC may not have sufficient evidence that these plants will operate in accordance with the relevant WGB Environment, Health and Safety Guideline. However, this finding also concerns the same points raised in IFC's response to Finding 13 above. As mentioned earlier, the MAP proposes energy efficiency/ GHG emissions reduction audits for

[35] Sustainable Finance Framework Circular No. 1085 in 2020; Environmental and Social Risk Management Framework Circular No. 1128 in 2021.

those coal-fired power plants that are performing poorly relative to international emission benchmarks. Such audits are targeted to be completed by December 2022. IFC will also develop specific guidance for FI clients such as RCBC on the management of sub-projects with significant GHG emissions, including GHG reporting requirements.

V. RESULTS OF CONSULTATIONS WITH CLIENT & COMPLAINANTS

80. IFC has proactively engaged with RCBC since the Complaint was lodged with CAO to understand its response to the concerns raised by the Complainants and facilitate its communications with CAO. In a follow-up to the CAO Report, IFC conducted multiple consultations with senior management of RCBC to discuss CAO's recommendations as well as specific actions proposed by IFC as outlined in the MAP.

81. With regards to CAO-recommended audits of Category A sub-projects in its loan portfolio, RCBC noted that it already reviewed all of them in 2019 but recognizes the importance of continuing to strengthen its ESMS capacity. RCBC also appreciated IFC's offer of assistance through the hiring of consultants or specialized training. It was agreed that RCBC would conduct another assessment of such sub-projects after the MAP is approved and would provide relevant documents to IFC for review. RCBC will continue to monitor the E&S performances of these sub-projects, including implementation of any agreed improvement action plans by June 2023.

82. In October 2021, BSP issued a circular outlining the importance of enhanced E&S risk management by the country's financial institutions. This demonstrates strong national backing by the regulator for adequate ESMS capacity of lenders. The circular does not prescribe any specific ESMS standard, nor does it reference IFC's PS. However, RCBC has committed to following IFC's E&S requirements. RCBC noted that as a result of the work with IFC on its ESMS, it was not only meeting BSP's requirements before the deadline for compliance, but it was also going beyond what was required by enhancing its capacity to apply IFC's PS to high-risk lending activities going forward.

83. With regards to the proposed MAP actions on the Complaint Sub-Projects, both RCBC and IFC agreed that governmental authorities and RCBC have a more direct linkage to these sub-projects, whereas IFC does not have standing to directly engage sub-borrowers. RCBC management was straightforward in clarifying its limited leverage over sub-project operators of the coal-fired power plants, given that these were financed as part of syndicated loans in which RCBC itself is not the sole or even a majority lender, but committed to engaging with the Complaint Sub-Projects' operators to propose the gap analysis, community engagement, and GHG emissions audits, noting that the accomplishment of these will be subject to the Complaint Sub-Projects' operators' agreement.

84. RCBC agreed to try to carry out, either separately or together with IFC, the proposed MAP actions relevant to them. The proposed MAP has been approved by RCBC's management team and board.

85. Per the new CAO policy, IFC also conducted consultations with the Complainants and other CSOs, on two occasions, to discuss and seek their feedback on proposed actions outlined in the initial MAP draft. The CSOs included PMCJ, IDI and BIC. CSOs' feedback has been broadly incorporated in the revised and final MAP, in particular in relation to (i) incorporation of meetings with communities and other stakeholders during the proposed gap analysis for these Complaint Sub-Projects; (ii) clarification that one of RCBC's loan facilities to the 11 eligible sub-projects in the CAO complaint was canceled in 2019; (iii) a strong preference that there should be a new ESAP governing the MAP commitments for which RCBC will be responsible; (iv) a request that RCBC

should clarify its position on coal (subsequently addressed via reference to the bank's 2020 Annual and Sustainability Report); (v) a push for the inclusion of PS requirements into RCBC's borrower legal agreements; (vi) a request that IFC seriously consider funding Complaint Sub-Project GHG audits; and (vii) a request that systemic reforms should be included in the MAP (as these were excluded entirely from the original draft). CSOs' main residual concern pertains to how and when alleged community harms will be addressed and what role IFC and RCBC will play in that process, based on their belief that both parties have a degree of responsibility for alleged harms.

VI. CONCLUSIONS AND LESSONS LEARNED

86. Management acknowledges CAO's observations and understands the concerns reflected in the CAO report.

87. IFC invested in RCBC following the global financial crisis. At the time, IFC was aware of weaknesses in financial sector E&S management in the Philippines and recognized that RCBC did not possess a sophisticated ESMS. Supporting RCBC to develop and implement an ESMS is one of the non-financial additionalities that IFC expected to bring through the investment. Since then, IFC has worked at both the sector and client level to strengthen E&S practices in the Philippines and at RCBC.

88. Management acknowledges that IFC had initially underestimated the level and number of challenges faced by RCBC to implement an effective ESMS and to apply IFC PS to its high-risk lending activities. In hindsight, IFC should have acted with more urgency in the early years of the investment. Management also agrees that for an extended period since 2011, RCBC did not fully comply with the IFC E&S requirements to which it was subject, and that a gap remains with respect to translation of RCBC's ESDD outcomes into binding agreements. The review and analysis undertaken by IFC in response to the CAO Complaint offer additional lessons. While some are related to the E&S practice applied at the time of certain investments, others reflect how IFC's E&S approach to FI clients has evolved over time and how, in general, it can continue to be improved in light of CAO's findings.

89. ***Application of IFC Performance Standards by FIs to Sub-projects:*** A specific lesson learned from this CAO case involves the challenges of applying IFC PS to sub-projects financed via syndicated lending structures, which typically involve limited leverage and/or limited access to information. This issue has been instructive for IFC and its evolving E&S approach to universal banks over the past decade.

90. ***Enabling Environment and Capacity Support for FI ESMS Implementation:*** An enabling regulatory framework is critical in accelerating adoption of an ESMS by FIs. Around the time of IFC's 1st equity investment, there was a prevailing market reluctance for banks to adopt an ESMS. There was no government support in the form of regulations and policies to ensure banks would have clarity on the purpose of the ESMS, or guidance on the approach to facilitate its adoption and level the playing field. Hence, banks were hesitant to voluntarily adopt it due to the perceived cost of implementing such a system, possible delays in the processing of loan applications due to additional requirements and steps, and perceived erosion of competitiveness as most Philippine banks did not compel their clients to meet E&S requirements. In addition, there was a lack of local supporting institutions and qualified consultants to assist banks in setting up and implementing an ESMS per IFC requirements. Absent such an enabling environment, like other banks in the market, RCBC required significant support on the effective inclusion and implementation of E&S risk management in its strategy and credit evaluation process.

91. ***FI Coal Exposure and Climate Impact:*** While earlier IFC FI projects did not systematically address FI exposure to coal, since 2019 IFC has adopted the Green Equity Approach that requires new FI clients, supported by IFC through equity or quasi-equity investments, to exit coal investments within an agreed period. In addition, this approach has been applied to existing equity clients when

IFC has provided any type of new financing to them. Finally, IFC has encouraged all its existing equity clients to follow the approach, although the leverage to do so without any new financing is limited. At a broader level, IFC seeks to review how climate change will affect a country's ability to meet its development goals, including a focus on green, resilient, and inclusive development. IFC engagements rely on identifying opportunities for climate action through public and private sectors, including with FIs that require greater E&S capacity building.

92. IFC is supporting the Philippines in meeting its COP26 targets by directly investing in companies whose projects contribute to the climate agenda and resiliency (e.g., IFC has helped create the green bond market in the Philippines through investing in the first few issuances) as well as providing capacity building on sustainability, decarbonization, climate risk, and E&S risk management. IFC is also in the process of developing a dedicated methodology focused on climate risk assessment of its FI investments from the perspective of meeting the Paris Agreement goals.

93. Overall, despite the challenges and delays faced by RCBC in implementing PS for its high-risk sub-projects, including those mentioned in the CAO complaint, IFC's enhanced E&S support in recent years has helped RCBC significantly improve its ESMS performance by setting a path toward full implementation of IFC's E&S requirements. Management is of the view that IFC's support to RCBC, alongside the country's regulatory reform, has been a key factor in driving RCBC to improve its E&S performance.[36] Notwithstanding the improvement in RCBC's performance, Management acknowledges that the bank still lacks a mechanism for requiring PS-related compliance commitments from high-risk borrowers. This is addressed in the MAP.

94. At the FI sector level, IFC's enhanced procedures over the past several years have resulted in a more robust practice that should make the issues discussed herein less likely in similar projects processed today. For example, the revised Interpretation Note on FIs, currently under review, will provide more clarity on IFC's expectations related to application of the PS by FI clients. IFC has also been implementing an extended sub-project disclosure approach that requires FI clients to disclose specific information on high-risk sub-projects to the public. IFC will also collate lessons learned from the first two years of the GEA implementation. This document will contribute to the development of IFC methodology for assessing prospective FI clients from the perspective of their alignment with the Paris Agreement (this methodology will be developed outside the MAP).

95. Recognizing past gaps in RCBC's implementation of IFC E&S requirements, Management appreciates the findings and recommendations in the CAO Report and has accordingly developed relevant MAP actions to address such gaps, after consultation with both RCBC and the Complainants. Management will supervise the implementation of the MAP after its approval by the

---

[36] Since 2012, with IFC support BSP has been at the forefront in promoting ESMS adoption by taking concrete steps among Philippine FIs, with initial focus on understanding the E&S landscape within the local financial sector though research, and building awareness and E&S capacity of banks. More recently, it has launched policy reforms through issuance of the two circulars on the sustainable finance framework and guidelines on E&S risk management for the institutions it oversees. These circulars are part of a series of regulations, including provision of incentives to banks that embrace sustainability principles, which will be issued by BSP. The transitory provision of the 1st circular issued in 2020 sets the BSP's expectation for banks to embed sustainability principles, including those covering E&S risk areas, in the banks' corporate governance and risk management frameworks and strategic objectives and to fully comply with circular provisions within three (3) years from its date of effectiveness. It is important to note that in the case of RCBC, without such an enabling environment, and as one of the first movers, it took the bank more time than BSP's expected timeline of 3 years.

Board and submit annual progress reports to the Board on its implementation.

ANNEX A: MANAGEMENT ACTION PLAN

1. This Management Action Plan ("MAP") specifies actions which IFC, working with RCBC and others as required, will implement to address CAO findings. In parallel to and outside this MAP, IFC will continue to supervise the E&S performance of RCBC by following IFC E&S policies and at the same time continue to strengthen its E&S approaches to FIs at a sectoral level as indicated in the Management Report.
96.

2. In determining these actions, IFC held consultations in December 2021 and January 2022 with RCBC's senior management and Civil Society Organizations, including the Complainants. Following these consultations and a review of CAO's findings and recommendations, IFC sought to identify achievable actions which are also measurable. These actions not only permit IFC to fulfill its responsibility as outlined in the Management Report, but also facilitate CAO's monitoring of the MAP actions.

Area of Improvement	Action / activity	Responsibility (Client, IFC or third-party)	Deliverable / expected outcome	Timeframe (subject to COVID-19 travel restrictions)	Status
A. Strengthen RCBC ESMS implementation, with a focus on IFC Performance Standards (PS or PSs) application to high-risk sub-projects	**A.1 E&S capacity needs assessment and enhancement:** 1. RCBC provides IFC with the latest information of its high-risk pipeline & portfolio as well as current ESMS team composition; 2. IFC reviews the information, identifies capacity enhancements needed and discuss findings with RCBC; 3. RCBC develops an E&S capacity enhancement action plan, acceptable to IFC, and implements it within one year.	RCBC and IFC	1. Summary of IFC review and recommendations; 2. RCBC capacity enhancement action plan 3. Evidence of enhancement action plan completion	1. June 2022 2. June 2022 3. June 2023	
	A.2 Incorporating PS requirements in a binding agreement for high-risk sub-projects: 1. RCBC (and/or through a third party, e.g., a recognized law firm) reviews its current legal templates and E&S due diligence arrangements (in particular for syndicated lending) to identify gaps as well as best approaches for applying IFC	RCBC with support from IFC	1. An overall (written) approach, acceptable to IFC, for addressing and integrating any PS compliance gaps and corrective measures identified by RCBC's	1. September 2022 2. As ready and before June 2023	

Area of Improvement	Action / activity	Responsibility (Client, IFC or third-party)	Deliverable / expected outcome	Timeframe (subject to COVID-19 travel restrictions)	Status
	PSs at sub-project level; 2. IFC supports RCBC in such reviews, including sharing relevant IFC legal covenants and PS-compliant ESAP samples.		E&S due diligence process into RCBC's investment agreements with high-risk borrowers. 2. Evidence of incorporation of this approach into RCBC's procedures and implementation of the approach to the first three new high-risk transactions undertaken following its approval.		
	A.3 Commitment to no coal financing: 1. RCBC reconfirms its commitment and makes a formal (policy) statement of not financing any new coal related sub-projects.	RCBC	1. No-coal commitment or policy statement made publicly available on RCBC's website or at other sources		Achieved in 2020
	A.4 Reassessing RCBC's existing high-risk portfolio sub-projects vis-à-vis PS requirements: 1. RCBC provides IFC with records and results of its review and monitoring of existing high-risk portfolio sub-projects; 2. IFC commissions a third-party consultant to review the information obtained from RCBC, identify gaps, and provide guidance to RCBC to address any residual gaps vis-à-vis the PSs, which may involve developing follow-up or monitoring action plans; **3.** IFC reviews the outputs and joins site visits for a sample of these high-risk sub-projects where feasible, to further assess the performance and quality of RCBC's ESMS implementation.	RCBC, third party consultant, with support from IFC	1. Consultant report and recommendations to RCBC; 2. Any follow-up or monitoring actions agreed with RCBC for these sub-projects (semi-annual updates expected through June 2023)	June 2023	
	A.5 ESAP revision 1. Generate a new legally binding ESAP covering RCBC actions described in A1-A4 that have not	IFC and RCBC	1. New ESAP included in a legally binding agreement with RCBC	April 2022	

Area of Improvement	Action / activity	Responsibility (Client, IFC or third-party)	Deliverable / expected outcome	Timeframe (subject to COVID-19 travel restrictions)	Status
	been achieved and are relevant for inclusion in the ESAP.				
B. Assess and mitigate E&S risks and impacts of complaint sub-projects	**B.1 Gap analysis of RCBC E&S due diligence and leverage:** 1. RCBC provides IFC with an update on its exposure to the 10 complaint sub-projects, documenting investment type, sub-project status (operational, under construction or pre-construction), leverage, loan covenants and monitoring requirements (if any). This will determine the leverage and options available to RCBC for arranging additional E&S review and raising any serious harms identified to the attention of complaint sub-project borrowers and co-lenders; 2. IFC supports RCBC in commissioning appropriately experienced and qualified third-party consultant(s) to review available E&S assessments, due diligence and monitoring reports, and any updates from RCBC for the complaint sub-projects against IFC PSs, with emphasis on issues highlighted in the CAO Assessment of Likelihood of Complaint Sub-project Impacts (Annex E); 3. RCBC arranges site visits to each complaint sub-project, in consultation with the complaint sub-project borrowers, to facilitate the gap analysis. Site visits will be undertaken by RCBC E&S staff, IFC third party consultants and IFC staff (as observers).	RCBC, third party consultant, with support from IFC	1. Consultant gap analysis report with recommendations to RCBC, sub-borrowers of RCBC and other lenders involved in financing these projects (see B4)	December 2022	
	B.2 Community and other stakeholder consultations: 1. As part of the gap analysis, RCBC engages with complaint sub-project borrowers to arrange for conflict-sensitive consultations with complaint	RCBC, sub-project borrowers, third party consultant,	1. Feeds into consultant gap analysis report mentioned in action B4	December 2022	

Area of Improvement	Action / activity	Responsibility (Client, IFC or third-party)	Deliverable / expected outcome	Timeframe (subject to COVID-19 travel restrictions)	Status
	sub-project-affected communities, including Complainants and other stakeholders (such as sub-project operators as feasible and appropriate) in relation to sub-project impacts on communities; 2. IFC representatives accompany third-party consultants (as observers).	with support from IFC			
	B.3 Sub-project sponsor engagement: 1. IFC, based on findings from the consultant prepared report, assists RCBC to develop a strategy of engaging with complaint sub-project lead arrangers/syndicated lenders/consulting engineers/owners/operators to obtain updated E&S monitoring data; 2. Where RCBC has limited leverage and/or limited access to information and/or is not able to influence the performance of any complaint sub-projects, the IFC third-party consultant shall document the reasons for this, any alternative approaches adopted, and any conclusions or recommendations to bring sub-projects into compliance with IFC PSs.	Third party consultant, sub-project borrowers, RCBC, with support from IFC	1. Sub-project engagement approach and results prepared by consultant as part of the consultant gap analysis report mentioned in action B4	December 2022	
	B.4 Mitigation and monitoring plan development 1. Based on the above gap analysis and associated consultations, third party E&S consultants identify any material E&S impacts related to regulatory or PS non-compliance (recognizing IFC PSs were not applied by sub-projects) and propose mitigation and monitoring plans as appropriate for complaint sub-project borrowers and their lenders, including RCBC. RCBC and IFC will review such plans and RCBC will engage with complaint sub-project borrowers and other lenders to communicate relevant findings and recommendations, and request corrective	RCBC	1. Consolidated gap analysis report with recommendations to RCBC, sub-borrowers of RCBC and other lenders involved in financing these sub-projects	December 2022	

Area of Improvement	Action / activity	Responsibility (Client, IFC or third-party)	Deliverable / expected outcome	Timeframe (subject to COVID-19 travel restrictions)	Status
	actions consistent with IFC PS requirements.				
	B.5 E&S performance monitoring 1. RCBC agrees with IFC on a regular reporting template and interval (e.g., semi-annually) to provide periodic updates to IFC on the E&S performance status of these individual complaint sub-projects, including the follow-up and/or monitoring plans noted above; 2. RCBC provides periodic updates to IFC as per the template agreed.	RCBC	2. Semi-annual monitoring report to IFC	December 2023	
C. Address complaint sub-project GHG emissions and improve climate related disclosure	**C.1 Onsite energy efficiency evaluation:** 1. RCBC explores with and seeks agreement from interested complaint sub-project owners/operators (e.g., those of substandard emissions profiles) for onsite energy efficiency/ GHG emissions reduction audits. Agreement with interested sub-project owners/operators shall include allowing disclosure of (key) audit results; 2. IFC supports RCBC in commissioning GHG emissions reduction audits by a suitably qualified third-party consultant for agreed complaint sub-projects; 3. IFC or RCBC or the complaint sub-project owner/operator publishes (key findings of) the assessment report (together with improvement proposal) per the agreement reached above.	Sub-project owner/operator, third party consultant, RCBC, with support from IFC	1. Assessment reports completed by consultant 2. Any public disclosure of such reports or their findings	December 2022	
	C.2 Improving climate related measurement and disclosure 1. IFC assists RCBC to develop/adopt an approach/methodology for calculating and reporting GHG emissions consistent with international good practices by its sub-project borrowers (high GHG emitters); 2. RCBC will identify a few new (high-risk) sub-borrowers to pilot-test the approach/methodology	IFC and RCBC	1. Approach/methodology developed 2. Any sample reports on the GHG calculation and reporting of the sub-borrowers in the pilot. 3. Any related reports made by RCBC with climate related disclosures.	1. December 2022 2. June 2023 3. September 2024 98.	

Area of Improvement	Action / activity	Responsibility (Client, IFC or third-party)	Deliverable / expected outcome	Timeframe (subject to COVID-19 travel restrictions)	Status
	and report accordingly; 3. IFC supports RCBC to prepare and make climate related disclosures in accordance with applicable national regulations and the Task Force on Climate related Financial Disclosures recommendations;		97.		
	C.3 Improving overall E&S disclosure **1.** IFC assists RCBC to improve overall E&S disclosure consistent with applicable Central Bank's regulations (e.g., BSP Circular No. 1085) and international good practices.		1. Any actual disclosed reports by RCBC	December 2022	
D. Address underlying factors	**D.1 Sector-wide improvements:** 1. IFC develops dedicated good practice note (GPN) for FIs on assessment of GHG gases in sub-projects to be financed; 2. IFC develops a GPN for FIs covering sample E&S covenants to be included in loan agreements;	IFC	1. GPN developed 2. GPN developed	June 2022 June 2022	

ANNEX B: TABLE SUMMARIZING FINDINGS AND RESPONSES

No.	CAO Finding	IFC Response with Actions Taken or Proposed
IFC's Pre-Investment Review and Risk Mitigation Measures (2011)		
1	IFC correctly classified the investment as FI and applied the appropriate E&S requirements (Sustainability Policy, para. 18).	***Management agrees with this finding.***
2	IFC deviated from the ESRP requirement to ensure that identified ESMS implementation gaps (in this case, the establishment and implementation of an ESMS from the start) were addressed prior to disbursement. As a result, IFC's leverage to meet the requirements of the Sustainability Policy in relation to its investment in RCBC was reduced.	***Management agrees with this finding.*** **Actions Taken:** E&S Risk Management Key mitigation measures to identify and manage E&S risks were included in the ESMS plan (e.g., nomination of ESMS officer, ESMS policy development, formalization of ESMS implementation plan). Completion of these actions was adequately defined as a condition of commitment. Development of ESMS procedures and implementation guidelines was not linked to the payment and issuance of shares, but to a timetable of implementation after commitment. With IFC support, RCBC developed the key elements of the ESMS in accordance with the ESRP that was in effect at the time of appraisal. While development of the procedures and guidelines was expected to be completed within 120 days after the commitment, development of ESMS policy was required to be completed prior to commitment; it was also required to include RCBC's position on E&S risk management and specify E&S screening and management criteria (including IFC Exclusion List, relevant applicable E&S laws, and IFC PS).
3	IFC's 2011 investment agreement did not reflect the ESRP requirement to retain the right to review its client's first few financing activities to ensure robust ESMS implementation (contrary to ESRP 2009, 7.2.10).	***Management agrees with this finding.*** The IFC appraisal did not identify any specific high-risk exposure and did not explicitly require IFC review rights of the first few financing activities of the client.
4	IFC's decision documentation does not present to the Board all material facts related to the E&S risks associated with this investment that the Board required in order for it to reach an informed decision (contrary to IFC Operational Procedures: New Business (para VIII.2.A.2, 2009).	***Management agrees with this finding.*** IFC appraisal of the portfolio information indicated that the client had exposure to electricity, gas, water, manufacturing, and real estate. As no further details were provided, it is possible these industry sectors included sub-borrowers involved in activities associated with high E&S risks and impacts.

No.	CAO Finding	IFC Response with Actions Taken or Proposed
		<u>**Actions Taken**</u>: The Board paper included some material facts related to the E&S risks required at the time of this FI's project appraisal. In particular, IFC identified that the client had exposure to the exclusion list, namely alcohol and tobacco, with a cap on these activities being agreed upon with IFC.
5	IFC's pre-investment review did not provide a basis to expect that the client would meet IFC's E&S requirements over a reasonable period of time (contrary to the Sustainability Policy, para. 17).	***Management agrees, with caveats, with this finding.*** At the time of these investments, most first-time FI clients had little or no experience with E&S risk management. IFC's approach was to develop a binding ESMS plan that required upfront commitments, such as appointing an E&S officer, having a board-approved E&S policy and an ESMS implementation plan. It was usual to expect progressive learning and advancement with the experience of the ESMS plan and its implementation after commitment. These actions were included in the ESMS and/or ESAP covenants in the share acquisition or loan agreement, depending on the financial product. <u>**Actions Taken**</u>: IFC followed the approach outlined in ESRP 2009 (7.2.8) with regards to RCBC: development of an ESMS plan, which required: (i) nomination of an ESMS officer, development of an E&S policy and ESMS implementation plan, prior to commitment, and (ii) development of the ESMS and execution of its implementation activities, along with capacity/training/review, after commitment. <u>**Portfolio**</u>: With regards to CAO's consideration that "the client had a *large portfolio of loans* to businesses in sectors with significant E&S risks," Management observes that at the time of this investment, RCBC's main sector or industry exposure consisted of manufacturing, real estate, wholesale and retail trading, utilities (electricity, gas and water), transportation, and financial intermediary investments. The utilities sector, which was considered as high E&S risk, represented only 13 percent of RCBC's overall loan portfolio.
6	As a result of Finding #5, IFC's investment in RCBC was at risk of supporting projects with significant adverse E&S impacts that would not	***Management agrees with this finding.*** Please refer to response above to Finding 5 for IFC's response here.

<table>
<tr><th>No.</th><th>CAO Finding</th><th>IFC Response with Actions Taken or Proposed</th></tr>
<tr><td></td><td>meet the requirements of IFC's Performance Standards.</td><td></td></tr>
<tr><td colspan="3"><u>IFC Supervision</u></td></tr>
<tr><td>7 (a), (b), (c), (d)</td><td>(a) CAO finds that IFC's 2013 pre-investment review did not provide IFC with a basis to conclude that the client would meet IFC's E&S requirements within a reasonable period of time (contrary to the Sustainability Policy, para. 22).

(b) As with the 2011 investment, CAO finds that IFC's 2013 investment did not meet the requirement to close identified gaps in the client's ESMS before commitment or as a condition of disbursement (contrary to ESRP 2009, 7.2.19). As a result, IFC's leverage to meet the requirements of the Sustainability Policy from its additional investment in 2013 was reduced.

(c) CAO finds that IFC did not subsequently disclose the status of ESAP implementation (contrary to para. 41(b) of IFC's Access to Information Policy).</td><td>Management agrees, with caveats, with this finding.

The 2013 appraisal indicated that corporate loans, at 70 percent, dominated the portfolio. Considering that there was evidence that the client was not implementing the ESMS (appraisal and supervision October 2012), with delays in ESMS plan implementation for the first transaction and a high-risk portfolio, Management agrees that IFC did not obtain sufficient evidence that the client would meet IFC's E&S requirements.

IFC's 2013 investment did not show sufficient evidence of ESMS implementation. While IFC supported RCBC in developing an ESMS plan that included a requirement to fully implement an amended ESMS, this requirement was not made as a condition of subscription.

<u>Actions Taken</u>:

Based on appraisal findings, IFC developed an ESMS plan that was included in the Amended and Restated Policy Agreement. The action plan included:

1. Submission of detailed implementation plan

2. Revised credit policy

3. ESMS full implementation

4. Staff training

Access to Information Policy 41(b): For each investment, other than those expected to have minimal or no environmental or social adverse risks and/or impacts, IFC updates the ESRS or Summary of Investment Information (SII) with the following E&S information, as it becomes available:

(i) Any ESAP required by IFC that has been produced after approval of the investment by IFC's Board of Directors (or other relevant internal authority); and

(ii) The status of implementation of the ESAP, where required by IFC.

IFC has not subsequently updated its disclosure regarding the status of ESAP implementation. IFC will enhance its disclosure so that relevant E&S information</td></tr>
</table>

No.	CAO Finding	IFC Response with Actions Taken or Proposed
	(d) CAO finds that as with the 2011 investment, IFC's 2013 investment in RCBC was at risk of supporting projects with significant adverse E&S impacts that would not meet the requirements of the IFC Performance Standards.	during project supervision is made available, if applicable and where required, in a timely manner. **<u>Action Taken:</u>** IFC's 2013 investment did not meet the requirement to close identified gaps. However, IFC did take steps to improve and accelerate the full implementation of measures for RCBC to meet IFC's E&S requirements. IFC developed an ESMS plan that was included in the Amended and Restated Policy Agreement for RCBC to improve implementation by taking specific actions: (i) submission of detailed implementation plan (condition precedent to commitment); (ii) revised credit policy (condition precedent to commitment); (iii) ESMS full implementation (six months from commitment); and (iv) staff training. Given its weak ESMS implementation capacity, RCBC was unable to fully carry out these actions to meet IFC's E&S requirements.
8 **(a), (b)**	(a) IFC's 2015 pre-investment review did not provide IFC with a well-founded expectation that the client would implement IFC's Performance Standards within a reasonable time period (Sustainability Policy, para. 22). (a) As with the 2011 and 2013 investments, IFC's 2015 investment did not meet the requirement to close identified gaps in the client's ESMS before IFC's commitment or as a condition of disbursement (contrary to ESRP (2014, 7.3.4.4)). As noted by IFC, the client's E&S performance would remain an unqualified risk for some time to come. As a result, IFC's leverage to ensure outcomes expected by the Sustainability Policy was reduced.	***Management agrees with this finding.*** IFC was transparent about the risks in its presentation to the Board. In fact, the Board Paper stated: "The recent supervision confirmed that IFC Performance Standards have not yet been adequately applied to its high-risk lending activities." IFC believed that it would likely take time to show tangible results in RCBC's high-risk portfolio management insofar as consistency with IFC's PS is concerned. Recognizing this, IFC proposed that RCBC utilize advisory services to ramp up its PS capacity if there is a delay in implementing the ESAP. Unfortunately, as with the 2011 and 2013 investments, IFC's 2015 investment did not meet the requirement to close identified gaps in the client's ESMS before IFC's commitment or as a condition of disbursement (contrary to ESRP (2014, 7.3.4.4). **<u>Actions Taken</u>:** As part of client supervision, IFC identified actions to be completed by RCBC. The ESAP included the following actions, among others: 1. Nominate officers (December 15, 2015) 2. Staff training (March 1, 2016)

No.	CAO Finding	IFC Response with Actions Taken or Proposed
		3. Provide ESMS implementation report (March 1, 2016) RCBC also hired a qualified external consultant to complete a review of its high-risk activities against the PS within six months of IFC bond purchases (April 2016).
9	IFC did not disclose the ESAP in full or provide an adequate summary of key measures, and IFC has not subsequently updated its disclosure regarding the status of ESAP implementation (contrary to para 31 (b)(iii) and 41 (b) of the Access to Information Policy.	***Management agrees, with caveats, with this finding.*** Sharing summaries of key E&S mitigation measures has been standard practice for FI projects. Based on findings of appraisal for #34115, no ESAP was required. And, in accordance with appraisal findings for #37489, an ESAP was defined. The disclosed ESAP partially summarizes key mitigation measures. IFC recognizes that it has not subsequently updated its disclosure regarding the status of ESAP implementation. **<u>Actions Taken</u>:** ESAP update disclosure: IFC has supervised the client on a regular basis and reviewed the status of ESAP implementation as part of its supervision activities. IFC will enhance its disclosure so that relevant E&S information during project supervision is made available, if applicable and where required, in a timely manner as per IFC's Access to Information Policy.
10 **(a), (b)**	**(a)** Over the course of ten years since making its first investment, IFC has not verified that the client (i) is operating its ESMS as envisaged at the time of IFC's pre-investment review or (ii) is applying the IFC Performance Standards, to its high-risk sub-projects (ESRP 2009 and 2014, para. 9.2.5/6).	***Management agrees, with caveats, with this finding.*** IFC has documented improved client E&S performance in recent years, as recognized in the CAO Report (pg.39), including the client's implementation of its ESMS. **<u>Actions Taken</u>:** IFC's Enhanced Client Support (ECS) program enabled RCBC, with IFC advisory support, to take necessary steps toward achieving E&S performance improvements. The ECS was particularly focused on building up adequate capacity for RCBC to apply IFC's PS to its high-risk lending activities (in line with the 2012 Sustainability Policy). The CAO Report acknowledged "positive outcomes" from the ECS such as the hiring of independent consultants in 2017, which demonstrated that "[f]or the first time…the client had

No.	CAO Finding	IFC Response with Actions Taken or Proposed
	(b) IFC has made multiple investments in a commercial bank in the Philippines that is financing projects with high levels of E&S risk without assurance of PS compliance. Further, available evidence suggests that through its investment in RCBC, IFC has exposure to high-risk projects without assurance that they are operating in accordance with IFC Performance Standards, with likely adverse impacts on communities and the environment.	dedicated E&S support and in-house E&S specialist staff." **<u>Actions Taken</u>:** For each investment project with RCBC, IFC defined applicable performance requirements and ESAPs that were incorporated in legal documentation. RCBC agreed to the ESAPs and showed willingness to take on IFC's recommendations. IFC actively supervised the client and provided enhanced support to address various weaknesses in respect of RCBC's implementation of its ESMS and other E&S requirements. **<u>Actions Proposed</u>:** Following consultations with RCBC, the Complainants and CSOs, the proposed MAP includes a gap analysis and training as relevant.
11(a)	Upon review of available evidence in relation to the issues raised in the complaint and considering relevant Performance Standard requirements, CAO concludes that at the sub-project level the following adverse impacts and outcomes raised in the complaint are very likely or rather likely: (a) adverse health impacts due to air pollution or water contamination from coal ash at six power plants; (b) impacts on livelihoods due to coal ash contamination at five power plants and due to physical or economic displacement at two power plants; (c) displacement and resettlement related impacts at two power plants; (d) threats against, and intimidation of, community activists in relation to four power plants; and (e) inadequate stakeholder engagement and consultation, including lack of grievance mechanisms, at all power plants.	***Management agrees, with caveats, with this finding.*** Under IFC's supervision requirements, RCBC's ESMS implementation included a 2019 review of high-risk sub-projects, which identified no material E&S impacts that could pose significant risks to the environment or communities. While Management agrees that the general types of impacts listed in CAO's findings, such as resettlement and air quality impacts, are typical of large-scale thermal energy projects, CAO was not able to validate the allegations made in the complaint, nor has CAO established whether the alleged impacts may have been related to the type of E&S requirements applied (i.e., whether the nature or scale of alleged E&S impacts would have differed depending on whether national laws or IFC PS were applied). CAO does not provide evidence that the potential impacts are directly linked to noncompliance with IFC E&S policies
11(b)	Adverse E&S impacts of the RCBC funded coal-fired power plants that CAO concludes to be likely or rather likely are of a significant nature and	***Management agrees with this finding.*** Addressing the adverse E&S impacts of coal-fired power plants is an important matter.

No.	CAO Finding	IFC Response with Actions Taken or Proposed
	require urgent assessment and mitigation following IFC's Performance Standards.	**<u>Actions Proposed</u>:** Actions in IFC's proposed MAP will look into the issues and assist RCBC to develop a strategy of engaging with sub-project lead arrangers/syndicated lenders/consulting engineers/operators to identify and promote strategies for impacts to be addressed.
12	IFC's response to the issues raised in Complaint has not provided assurance that the client has applied IFC E&S requirements to the coal-fired power plants it financed as required by the ESRP (2014, para. 9.2.5).	***Management agrees, with caveats, with this finding.*** **<u>Actions Taken</u>:** In response to the CAO complaint, IFC emphasized to RCBC the importance of completing ESMRs for the Complaint Sub-Projects and contracted a consultant to visit one of the coal-fired power plants. RCBC also conducted E&S assessments for the Complaint Sub-Projects based on available information/leverage and site visits where it could arrange these. RCBC has been following the PS and has tried to engage with the Complaint Sub-Project borrowers to close identified gaps. It has made tangible achievements with some Complaint Sub-Projects. **<u>Actions Proposed</u>:** As part of the MAP, IFC will review available E&S assessments and examine any updates from RCBC on the Complaint Sub-Projects compared against IFC's PS.
13	While making multiple investments in RCBC, IFC did not assess either i) the client's exposure to sub-projects with significant GHG emissions; or ii) the client's commitment and capacity to manage this exposure in accordance with PS3 which includes requirements to measure GHG emissions and evaluate technical and financially feasible options to reduce or offset GHG emissions (contrary to Sustainability Policy 2006 para. 11, and 2012, para. 7). Furthermore, while the World Bank Group implemented additional criteria, which raised the bar for it to finance coal-related projects, there is no evidence these criteria were applied to IFC's investments in RCBC.	***Management disagrees with this finding.*** Management disagrees with this finding specifically with reference to the FI sub-project GHG emissions reporting, as it is currently only required for IFC direct investment according to IFC's Sustainability Policy (para. 11). **<u>Actions Taken</u>:** IFC has introduced a Green Equity Approach that requires gradual reduction of exposure to coal-related projects to zero (or near zero) by 2030. **<u>Actions Proposed</u>:** IFC to develop specific guidance for FI clients on management of sub-projects with significant GHG emissions (GHG reporting requirements to be introduced where relevant at the level of FI sub-borrower). To clarify, the World Bank Group criteria as addressed in the 2013 WBG Energy Strategy Paper is focused on direct investments, not investments through FIs, as is the case with RCBC's financing of the coal-fired power plants by sub-borrowers.

No.	CAO Finding	IFC Response with Actions Taken or Proposed
14	Shortcomings in IFC's review and supervision of its investments in RCBC have contributed to an outcome whereby RCBC has co-financed the construction of multiple coal-fired power plants which emit a significant amount of CO_2, without significant evidence that they will operate in accordance with IFC's requirements to reduce greenhouse gas emissions.	***Management agrees, with caveats, with this finding.*** RCBC may not have sufficient evidence that the coal-fired power plants will operate in accordance with IFC's requirements to reduce GHG emissions. However, this finding also concerns the same points raised in IFC's response to Finding 13 above. **Proposed Actions:** The MAP proposes energy efficiency/ GHG emissions reduction audits for these coal-fired power plants. IFC will also develop specific guidance for FI clients such as RCBC on the management of sub-projects with significant GHG emissions, including GHG reporting requirements.

ANNEX C: LIST OF CAO COMPLAINT SUB-PROJECTS FINANCED BY RCBC

#	COMPLAINT SUB-PROJECT	BRIEF DESCRIPTION		
		CAPACITY/ TECHNOLOGY	STATUS	PLANT LOCATION
1	Masinloc Power Partners Co. Ltd. power plant expansion	1578 MW (300 MW expansion) Supercritical & Subcritical	Units 1, 2, & 3 - Operational; Unit 4 & 5 (expansion) - Under Development as of January 2021	Brgy. Bani, Masinloc, Zambales
2	GN Power Dinginin Ltd. Co. power plant	1336 MW (2 x 688 MW)/ Supercritical	Unit 1 - Operational; Unit 2 - Target Operation in 2022	Brgy. Alas-asin, Mariveles, Bataan
3	South Luzon Thermal Energy Corporation power plant	270 MW (2 x 135 MW) Circulating Fluidized Bed	Operational	Calaca, Batangas
4	San Buenaventura Power, Ltd. Co. power plant	455 MW/Supercritical	Operational	Brgy. Cagsiay I, Mauban, Quezon Province
5	Panay Energy Development Corp. power plant	Existing: 2 x 82MW; Expansion: 150 MW/ Circulating Fluidized Bed	Operational	Brgy. Ingore, La Paz, Iloilo City
6	Sarangani Energy Corporation power plant	210 MW (2 x 105 MW)/ Circulating Fluidized Bed	Operational	Brgy. Kamanga, Maasim Municipality, Sarangani, Southern Mindanao
7	GN Power Kauswagan power plant	552MW (4 x138 MW)/Subcritical	Operational	Brgy Libertad, Tacub, Kauswagan, Lanao del Norte, Mindanao
8	Toledo Power Company power plant	83.7 MW Sangi Power Station (with expansion from 60 MW)/ Circulating Fluidized Bed	Operational	Daanlungsod, Brgy. Sangi, Toledo City, Cebu
9	Atimonan One Energy	No RCBC Investment		
10	San Miguel Corporation Global Power Limay power plant	600 MW (4 x150 MW)/ Circulating Fluidized Bed	Operational	Lamao, Limay, Bataan
11	San Miguel Consolidated Power Corporation Malita power plant	300 MW (2 x 150 MW)/ Circulating Fluidized Bed	Operational	Malita, Davao Occidental

Source: IFC Compilation

Disclaimer

The IFC Management Report and Management Action Plan 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.

The CAO administers IFC's accountability mechanism in order to address complaints by people affected by IFC supported projects. As noted in paragraph 9 of the IFC/MIGA Independent Accountability Mechanism (CAO) Policy, CAO has no authority with respect to judicial processes. CAO is not a judicial or legal enforcement mechanism, nor is CAO a substitute for courts or regulatory processes, and CAO's analyses, conclusions, and reports are not intended or designed to be used in judicial or regulatory proceedings or for purposes of attributing legal fault or liability.

Nothing contained in the CAO's Investigation Report or in the IFC Management Report and Management Action Plan (1) creates any legal duty, (2) asserts or waives any legal position, (3) determines any legal responsibility, liability or wrongdoing, (4) constitutes an acknowledgment or acceptance of any factual circumstance or evidence of any mistake or wrongdoing, or (5) constitute any waiver of any of IFC's rights, privileges or immunities under its Articles of Agreement, international conventions or any other applicable law. IFC expressly reserves all rights.

While reasonable efforts have been made to determine that the information contained in the reports is accurate, no representation or warranty is given as to the accuracy or completeness of such information.
In preparing the IFC Management Report and Management Action Plan, IFC does not intend to create, accept or assume any legal obligation or duty, or to identify or accept any allegation of breach of any legal obligation or duty. No part of the CAO's Investigation Report or IFC's IFC Management Report and Management Action Plan may be used or referred to in any judicial, arbitral, regulatory or other process without IFC's express written consent.