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## **Compliance Investigation Monitoring Report:**

### **IFC MAP Implementation for Rizal Commercial Banking Corporation (RCBC), the Philippines**

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**January 17, 2025**

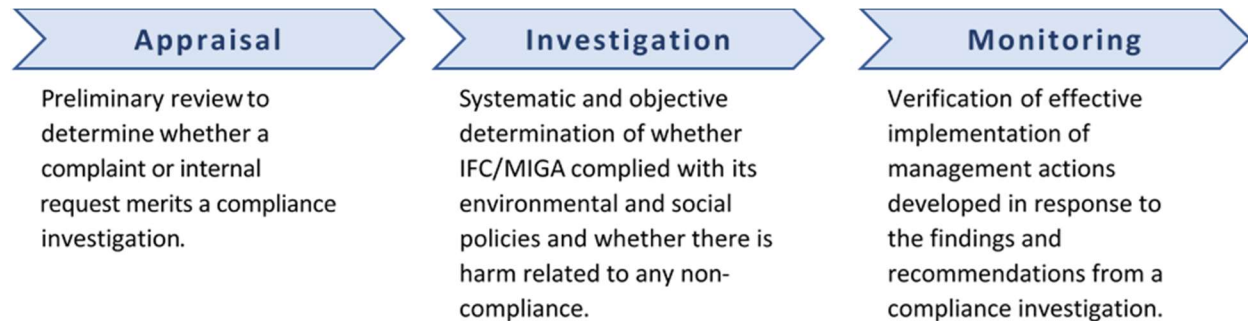
## About CAO

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), members of the World Bank Group. We work to facilitate the resolution of complaints from people affected by IFC and MIGA projects in a fair, objective, and constructive manner, enhance environmental and social project outcomes, and foster public accountability and learning at IFC and MIGA.

CAO is an independent office that reports directly to the IFC and MIGA Boards of Executive Directors. For more information, see [www.cao-ombudsman.org](http://www.cao-ombudsman.org).

## About the Compliance Function

CAO's compliance function reviews IFC and MIGA compliance with environmental and social policies, assesses related harm, and recommends remedial actions where appropriate. CAO's compliance function follows a three-step approach:



## Acronyms

CAO	Office of the Compliance Advisor Ombudsman (IFC and MIGA)
DG	Director General
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESDD	Environmental and Social Due Diligence
ESMS	Environmental and Social Management System
ESRP	Environmental and Social Review Procedures
ESRS	Environmental and Social Review Summary
FY	Fiscal Year
GHG	greenhouse gas
GIIP	Good International Industry Practice
IFC	International Finance Corporation
MAP	Management Action Plan
MIGA	Multilateral Investment Guarantee Agency
PS	IFC Performance Standards
RCBC	Rizal Commercial Banking Corporation

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## Summary

Compliance monitoring of actions taken by IFC and/or MIGA is the last phase in CAO's compliance process. This final stage is critical to addressing the findings of the investigation through remedial commitments and measures that address project-related Harm.

In April 2022, the IFC Board approved a Management Action Plan (MAP) to address non-compliance findings and related Harm identified in CAO's investigation of IFC investments in Rizal Commercial Banking Corporation (RCBC), a financial intermediary. The case, brought to CAO by local communities, related to RCBC's financing of 10 coal fired power plants in the Philippines.

IFC provided its second and third implementation progress reports to CAO in December 2023 and November 2024. These describe IFC's support to RCBC in implementing its Environmental and Social Management System (ESMS) as well as completion of IFC commissioned gap analysis reports evaluating the plants' ongoing E&S risks and impacts. IFC also acknowledges that it has not made progress on the assessment of GHG emissions from the 10 power plants.

In response to CAO's serious and wide-ranging findings of non-compliance, IFC's MAP set objectives to strengthen RCBC's approach to E&S risk management, assess and mitigate the power plants' E&S risks and impacts, and address their GHG emissions. However, despite the ongoing impacts on communities, CAO's monitoring concludes limited evidence of meaningful outcomes to date from these initiatives.

Specifically, CAO notes that:

- IFC has yet to assure itself that RCBC is implementing an ESMS which applies the Performance Standards to high-risk investments, as required by IFC's Sustainability Policy, para 45. This makes affected communities and the environment vulnerable to unmitigated E&S risks and impacts. In particular, RCBC's failure to apply legally binding E&S requirements to its higher-risk business activities which assure that the IFC Performance Standards (PS) are achieved over time is a continuing non-compliance and poses an ongoing risk to IFC of new and additional environmental and social issues.
- IFC has made significant efforts to assess the E&S risks and impacts of the 10 power plants. However, the risks and impacts to communities and the environment identified have not been mitigated, despite IFC's E&S consultant making 186 recommendations to improve power plant E&S performance and/or address underlying complaint issues.
- IFC has been unable to assess GHG emissions from the power plants. Unless additional action is taken, they will likely emit significant GHG emissions for decades to come, adding to climate change and presenting a lost opportunity to enhance their energy efficiency.
- IFC reports that its published two good practice notes related to its FI sector investments. CAO will consider the effective implementation of this commitments as part of CAO wider monitoring of IFC's FI portfolio.
- IFC does not propose to share the final Gap Analysis Executive Summary reports with complainants. It is CAO's view that these reports should be shared with the complainants. The draft reports were shared with them. These reports are a major output of the MAP and were prepared using primarily public environmental information and consultation.

Based on its review of IFC's progress reports and additional documentation received, along with observations made on a site visit to the Philippines, CAO has decided to keep monitoring of this case open.

This Monitoring Report details CAO's observations in verifying the effective implementation of IFC MAP actions to address CAO's investigation non-compliance findings and related Harm. Specifically, the report covers IFC's progress in implementing remedial actions from June 2023 to December 2024.

The following sections present the case background, IFC Management Response and Management Action Plan, CAO's monitoring activities over the past 18 months, IFC's Progress Report of November 2024 and CAO's related analysis.

## Case Background and CAO Investigation

In 2011, IFC began investing in Rizal Commercial Banking Corporation (RCBC, the client), a large universal bank and financial intermediary whose strategy aligned with IFC's developmental objectives for the Philippines, including financial inclusion and sustainability. IFC subsequently made multiple equity and loan investments to support RCBC, and RCBC remains a client.

Following IFC's initial investment, RCBC financed 10 coal-fired power plants in the Philippines, and committed to finance an additional plant. In October 2017, CAO received a complaint<sup>1</sup> from communities near these plants, supported by three nongovernmental organizations (NGOs)—the Philippine Movement for Climate Justice, Inclusive Development International, and Bank Information Center. The complaint raised concerns that RCBC financed these coal plants without applying IFC's Performance Standards, leading to environmental and social (E&S) harms to local communities and contributing to global climate change. In particular, the complaint alleged the following impacts and harms related to the client-financed plants:

- a. Absence of, or inadequate, public consultations and grievance mechanisms
- b. Water and air pollution by coal ash, impacting community health
- c. Loss of livelihoods for farmers and fisherfolk due to ash contamination
- d. Involuntary physical displacement and resettlement of communities to make way for the plants, with inadequate compensation or inadequate conditions at resettlement sites
- e. Loss of biodiversity due to pollution of mangroves and seaweeds, among other habitats
- f. Acquisition of Indigenous Peoples' land and displacement of Indigenous Peoples from ancestral lands
- g. Allegations of intimidation of community activists.

CAO's subsequent compliance investigation<sup>2</sup> reviewed how IFC applied its E&S requirements to its investments in RCBC, and in particular to 11 coal-fired power plants named in the complaint (see figure 1). The investigation found that many of the alleged adverse impacts on communities and the environment from the RCBC-financed plants were likely to have occurred. It identified IFC non-compliance in the appraisal and supervision of E&S risks emerging from its investment in RCBC's banking business and concluded that these shortcomings contributed to the client's

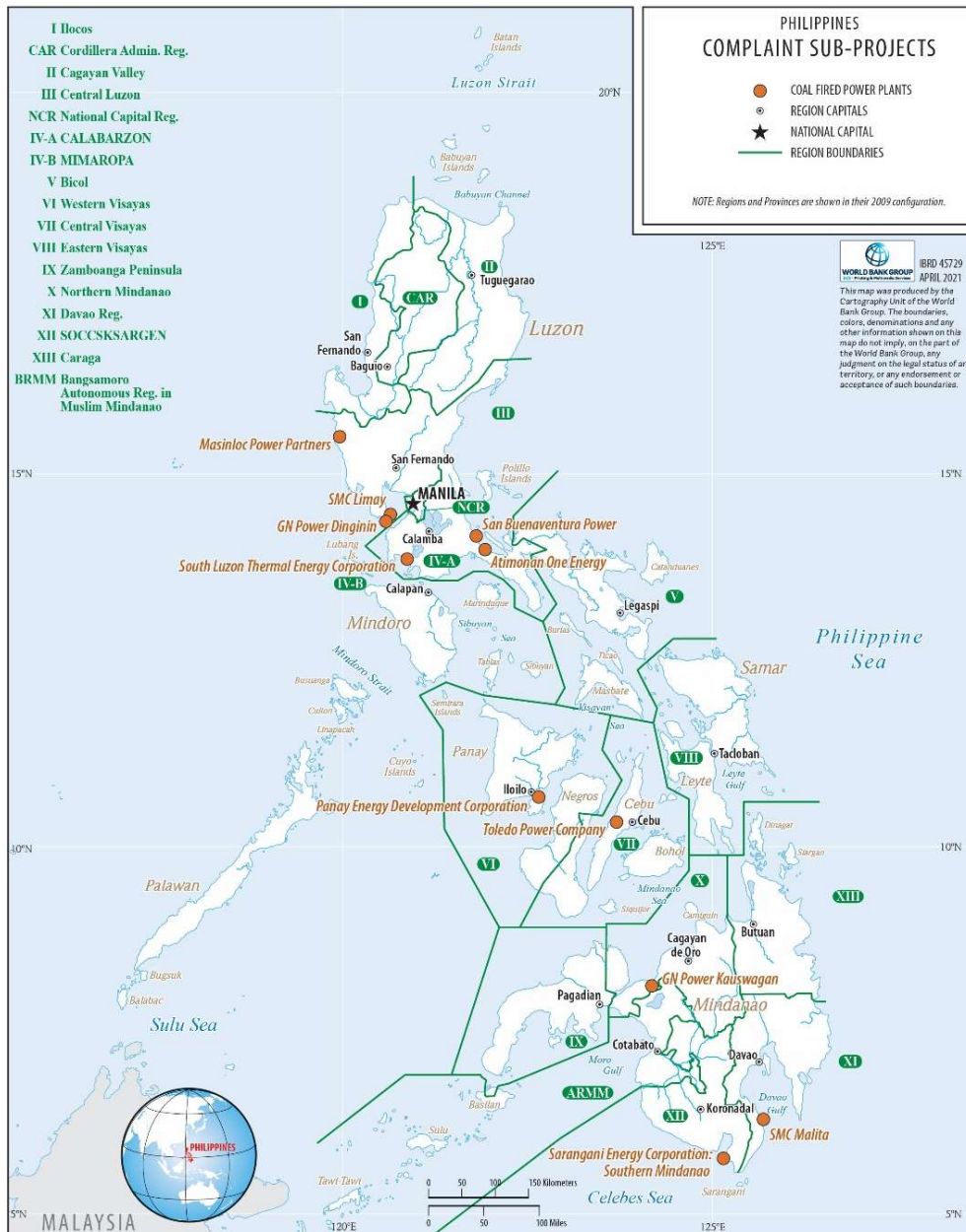
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<sup>1</sup> The complaint to CAO references 19 coal-fired power plants. Between 2017-2018, CAO determined the complaint eligible in relation to 11 coal-fired power plants supported by RCBC. IFC's Management Report (2022) commits to action in relation to 10 coal-fired power plants. IFC did not commit to action in relation to 1 coal fired power plant (Atimonan One Energy) as RCBC never disbursed funds to support the development of that power plant. CAO Complaint (October 2017) regarding IFC's investments in RCBC is available at <https://bit.ly/3ZgjOUT>

<sup>2</sup> CAO Compliance Investigation Report (November 2021) is available at <https://bit.ly/3ZgjOUT>

provision of support to the plants without assurance that these sub-projects would operate in accordance with IFC Performance Standards (PS). In relation to complainant concerns regarding GHG emissions, CAO's investigation report noted that Performance Standards 3 include requirements to quantify and reduce greenhouse gas (GHG) emissions, but IFC did not obtain assurance that these were applied to RCBC's financing of the plants.

**Figure 1: Map of Complaint Sub-Projects**



## IFC Management Report and Management Action Plan

IFC Management's Report to the CAO Investigation Report, in February 2022, expressed deep concern over the allegations of risk of harm to communities. Further, IFC noted its appreciation for the report's findings, particularly the thorough review of IFC's investments in RCBC in 2011, 2013, and 2015, and expressed agreement with many of CAO's findings and recommendations.<sup>3</sup> In April 2022, the IFC Board approved IFC's Management Action Plan (MAP) to address the CAO non-compliance findings and related Harm.

IFC's MAP consisted of four workstreams, shown below, three to be conducted at project level in the Philippines, and the fourth at institutional level, applicable across IFC's investments:

Project-Level Response	<p><b>A. Strengthen RCBC's ESMS implementation, with a focus on application of IFC Performance Standards (PS) to high E&amp;S risk sub-projects.</b></p> <ul style="list-style-type: none"> <li>• Action A.1: E&amp;S capacity needs assessment and enhancement</li> <li>• Action A.2: Incorporating PS requirements in a binding agreement for high-risk sub-projects</li> <li>• Action A.3: RCBC commitment to no coal financing</li> <li>• Action A.4: Reassessing RCBC's existing high-risk portfolio sub-projects against IFC PS</li> <li>• Action A.5: Revised Environmental and Social Action Plan (ESAP) between IFC and RCBC.</li> </ul> <p>See IFC Management Response and MAP for specific action items.</p>
Project-Level Response	<p><b>B. Assess and mitigate E&amp;S risks and impacts of Complaint Sub-Projects.</b><sup>4</sup></p> <ul style="list-style-type: none"> <li>• Action B.1: Gap analysis of RCBC E&amp;S due diligence and leverage</li> <li>• Action B.2: Community and other stakeholder consultations</li> <li>• Action B.3: Sub-project sponsor (power plant operator) engagement</li> <li>• Action B.4: Mitigation and monitoring plan development for relevant power plants</li> <li>• Action B.5: E&amp;S performance monitoring.</li> </ul>
Project-Level Response	<p><b>C. Address Complaint Sub-Projects' greenhouse gas (GHG) emissions and improve climate related disclosure.</b></p> <ul style="list-style-type: none"> <li>• Action C.1: Onsite energy efficiency evaluation at RCBC-financed power plant</li> <li>• Action C.2: Improving climate-related measurement and disclosure</li> <li>• Action C.3: Improving overall E&amp;S disclosure.</li> </ul>
Systemic-Level Response	<p><b>D. Address underlying factors through development of Financial Intermediary (FI) Good Practice Notes (GPNs).</b></p> <ul style="list-style-type: none"> <li>• Action D.1: IFC develops dedicated good practice note (GPN) for FIs on assessment of GHG gases in subprojects to be financed.</li> <li>• Action D.2: IFC develops a GPN for FIs covering sample E&amp;S covenants to be included in loan agreements.</li> </ul>

See Annex A for summary table of CAO non-compliance findings and related Harm, and IFC MAP commitments to address these findings.

<sup>3</sup> IFC Management Report and Management Action Plan, as approved by the IFC Board in April 2022, is available at <https://bit.ly/3ZgjOUT>

<sup>4</sup> CAO's investigation covered 11 coal-fired power plants. Subsequent to the complaint submission to CAO, RCBC decided not to finance the Atimonan One Energy power plant. IFC's Management Action Plan, as approved by the Board, did not commit to undertake a gap analysis assessment of the Atimonan One Energy power plant. Accordingly, IFC's MAP commitment relates to 10 coal-fired power plants financed by RCBC.



## CAO Monitoring Activities

In May 2023, CAO published its first Compliance Monitoring Report summarizing CAO's analysis of IFC's MAP implementation to date.<sup>5</sup> This report took into account IFC's progress report (March 2023) as well as observations provided by the complainants. While acknowledging that IFC had made significant efforts in relation to this case, CAO concluded that the delays in MAP implementation were concerning. In particular, IFC had anticipated concluding the gap analysis reports (workstream B, above) and GHG emission reduction audits (workstream C) by December 2022, but instead IFC was still in the process of commissioning a consultant to undertake these tasks. Furthermore, CAO expressed concerns that RCBC had still not incorporated Performance Standard requirements in binding agreements for its high-risk sub-projects (workstream A). CAO expressed concern that the continuing lack of assurance that RCBC is applying the PS to such sub-projects made IFC vulnerable to new and additional non-compliances.

This second compliance monitoring report draws on CAO's field visit to several villages where complainants live as well as a review of IFC's gap analysis, completed under the terms of the MAP. CAO's observations on these are summarized below. Its analysis of IFC's most recent progress report for this case, in November 2024, is covered in the next section.

### (a) CAO Compliance Monitoring Field Visits

In November 2023, the CAO Director General and compliance staff visited the Philippines. The group met with complainant representatives near three coal-fired power plants (GNP Dinginin, SMC Limay and Sarangani), and in each case visited the power plant boundary fence with local communities. CAO also facilitated a two-day meeting in Manila of complainant representatives from communities located next to each of the coal-fired power plants, and met with RCBC senior management and IFC staff. In addition, CAO compliance staff met with IFC's consultant in Hong Kong SAR, China to discuss progress in conducting the gap analysis reports.

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<sup>5</sup> CAO Compliance Omnibus Monitoring report (May 2023) covering IFC's MAP Implementation related to its RCBC investment is available at <https://bit.ly/3ZqjOUT>

**CAO visit to Sitio Dinginin, November 2023:** The Sitio Dinginin (small village of Dinginin) is located 150 meters from the boundary fence of the GNP Dinginin power plant. CAO staff attempted to visit the village via the only existing road but were blocked by the power plant security barrier.<sup>6</sup> CAO staff therefore traveled to the town on a fishing boat, an important local mode of transport and the only other means of reaching the village. CAO heard firsthand from community members a range of concerns stemming from operation of the power plant. These included: loss of access to other communities due to road restrictions; impacts on fisherfolks' livelihoods due to restrictions imposed on the fish catch area; contamination of fishing waters due to the release of coal dust when coal is unloaded; noise from the power plan and fear of health impacts given the village's close proximity. Villagers also raised concerns with the plant's stakeholder engagement and community grievance mechanism.



During the visit, CAO staff experienced restrictions on road access to the community and observed coal dust emissions during the jetty port unloading process.

PHILIPPINES GN POWER DINGININ COAL PLANT		
1 SITIO DINGININ, COMMUNITY	3 GN POWER MARIVELES, COAL PLANT (NOT PART OF CAO CASE)	5 CONSTRUCTION OF CONCRETE PRECAST PLANT AND PORT
2 GN POWER DINGININ, COAL PLANT (SUPPORTED BY RCBC AND PART OF CAO CASE)	4 GN POWER SECURITY BARRIER ON ONLY ACCESS ROAD TO SITIO DINGININ	6 HARBOR FOR COMMUNITIES AND FISHERFOLK

<sup>6</sup> CAO understands that where prior notification and rationale is provided to the power plant, access to the town via the road is permitted.

**CAO visit to Lamao Limay, November 2023:** Lamao Limay (the village of Lamao) is adjacent to the SMC Limay power plant. Some houses are located as close as 30 meters from the boundary fence and the majority of the approximately 9,700 residents live within a 1-kilometer radius of the plant. CAO first met with complainants at an offsite location before visiting communities adjacent to the power plant and walking along the fence of the plant's ash pond. CAO heard similar concerns from community members to those expressed at Sitio Dinginin. These included: loss of livelihood due to the pollution of crops from coal ash, and associated health effects with a particular concern for impacts on children; noise and odor from the power plant; and forced eviction from residences with inadequate livelihood restoration. Villagers also raised concerns with the plant's stakeholder engagement and community grievance mechanism.

During its visit, CAO staff observed significant levels of noise from the coal fired plant and significant levels of dust on homes, furniture, laundry and vegetation located within the community. Using handheld air quality monitors, CAO staff measured (non-representative sample, 15 minutes average)<sup>7</sup> very high levels of PM2.5 at the plant boundary (60 µg/m<sup>3</sup><sup>8</sup> of PM2.5, compared to a WHO standard of 15 µg/m<sup>3</sup> and a local standard of 50 µg/m<sup>3</sup>).<sup>9</sup> PM2.5 is fine particulate matter posing serious health risks and these measurements are well above local ambient air quality standards in residential areas next to the plant.



PHILIPPINES  
SMC LIMAY COAL PLANT

- 1 LAMAO, LIMAY COMMUNITY
- 2 SMC LIMAY, COAL PLANT (SUPPORTED BY RCBC AND PART OF CAO CASE)
- 3 OIL REFINERY AND PORT (NOT PART OF CAO CASE)
- 4 ASH POND USED BY SMC LIMAY
- 5 SCHOOL

CAO staff also visited the plant's ash pond boundary fence, where they observed the unloading of a truck with bottom ash and the presence of four to five piles of bottom ash that had been unloaded earlier without the visible application of appropriate dust suppression techniques (sprinkling, covering). While there was no wind during the site visit, community members explained that on windy days considerable fugitive dust would escape, especially from these uncovered ash piles. Bataan is affected by heavy winds during the typhoon season from June to November each year. Even without wind, CAO measured very high levels of PM2.5 at the ash pond fence (>60 µg/m<sup>3</sup> of PM2.5).<sup>10</sup>

<sup>7</sup> As per the Philippine Clean Air Act (1999, and 2013 update) a representative sample would be one measurement every six days, with a minimum of twelve sampling days per quarter.

<sup>8</sup> This is in line with measurements carried out by CEED in the vicinity of Philippine coal power plants. For further details see <https://bit.ly/3OEMCQw>.

<sup>9</sup> Ambient air quality measurements have not been made available by the power plant to IFC's consultant for the purposes of conducting the gap analysis. Such measurements are key to judge to which extent many of the complaint issues are justified or not.

<sup>10</sup> Ambient air quality measurements have not been made available by the power plant to IFC's consultant for the purposes of conducting the gap analysis. Such measurements are key to judge to which extent many of the complaint issues are justified or not.

**CAO visit to Sarangani, December 2023:** Communities live adjacent to the ash pond used by the Sarangani Energy Corporation. CAO staff met with local complainants and heard wide-ranging concerns from community members related to the plant's operation. Local residents assert that they are Indigenous People who were displaced without free prior and informed consent (FPIC). They allege that the plant's ash pond and stack emissions<sup>11</sup> have caused health effects and that noise nuisance and impacts to fishing stocks have also affected the community. Finally, villagers also raised concerns with the plant's stakeholder engagement and community grievance mechanism, and alleged intimidation Indigenous People.



### (b) CAO Review of Gap Analysis Reports

Between March and July 2024, CAO received draft full versions<sup>12</sup> of all 10 Gap Analysis Reports conducted by a specialist E&S consultant for IFC. CAO reviewed these reports and provided detailed comments to IFC's consultant, including through a virtual meeting with IFC's consultant. Broadly, CAO comments recommended that IFC's consultant:

- Use professional judgment when assessing power plant gaps and impacts, rather than reaching "inconclusive" determinations
- Enhance the depth of environmental analysis on energy efficiency, stack emissions and ambient air quality

<sup>11</sup> Some community members live on top of a hill which they assert is at the same height of the power plant stack, approximately 600-900 meters from their residences.

<sup>12</sup> As per the ToR for the Gap Analysis, IFC, CAO, RCBC and the relevant coal power plant were provided with access to the full draft versions of the gap analysis report. The complainants and their representatives received the following aspects of the gap analysis reports: (i) Executive Summary and (ii) Annex 3: Summary of Stakeholder Views.

- Expand on the outcome and costed recommendations (rather than providing generic statements on the need for more studies) with consideration for what could be achieved with relative ease
- Provide clarifications on some power plant specific issues.

Following the consultant's consideration of comments by CAO and other stakeholder, CAO received a second version of two draft gap analysis power plant reports. CAO broadly welcomed these revised drafts as the analysis was strengthened and reinforced by additional data obtained by IFC's consultant. CAO also concluded that the IFC consultant had exercised professional judgement in the analysis of impacts. CAO staff were provided restricted access to the final versions of all 10 Gap Analysis reports in mid-November 2024.

## IFC Progress Report November 2024 and CAO Analysis

IFC has prepared three progress reports documenting its implementation of its MAP (March 2023, December 2023, and November 2024). This section summarizes IFC's updates on each workstream in its most recent report, followed by CAO's observations.

*Workstream A: Strengthen RCBC's ESMS implementation, with a focus on application of IFC Performance Standards (PS) to high E&S risk sub-projects.*

**Summary of IFC Update, ESMS implementation:** IFC reports that it continues to support RCBC's ESMS implementation and has provided the client with recommendations to strengthen its ESMS capacity. IFC's E&S consultant also completed a Reassessment Study of RCBC's high-risk sub-project portfolio. IFC shared these reports and recommendations with RCBC but reports that the client does not agree with the findings. However, RCBC expressed interest in working with IFC to develop a capacity enhancement action plan (CEAP).<sup>13</sup>

**CAO Comment:** RCBC has an E&S Policy and ESMS in place. The policy aims to promote sustainable practices by the IFC client and its sub-clients and minimize negative E&S and reputational impacts from the bank's activities.<sup>14</sup> However, the CAO investigation report (2021) recorded the following gaps based on IFC's supervision of RCBC's ESMS implementation:

- Inadequate integration of the FI's ESMS with its existing risk management systems;<sup>15</sup>
- Lack of an effective system for reviewing higher risk projects against relevant Performance Standard requirements;<sup>16</sup>
- Insufficient E&S staff members, relative to the size of the client's portfolio, with expertise in applying the Performance Standards to higher risk activities the client finances;<sup>17</sup>
- Lack of full inclusion of E&S provisions in legal agreements and ESAPs, as relevant, to ensure compliance with the Performance Standards;<sup>18</sup> and
- An ineffective approach for monitoring project performance against the requirements of the Performance Standards.<sup>19</sup>

<sup>13</sup> IFC Progress Report, November 2024.

<sup>14</sup> RCBC Sustainability and Impact Report 2023 provides a summary of RCBC's approach to E&S risk management.

<sup>15</sup> CAO Investigation Report (2021), page 39

<sup>16</sup> CAO Investigation Report (2021), page 42

<sup>17</sup> CAO Investigation Report (2021), page 42

<sup>18</sup> CAO Investigation Report (2021), page 42

<sup>19</sup> CAO Investigation Report (2021), page 42

IFC's progress reports and IFC's supervision documentation have yet to indicate full resolution of these gaps. CAO notes IFC's objective to develop a capacity enhancement action plan (CEAP) agreeable to IFC and RCBC.<sup>20</sup>

**Summary of IFC Update, legally binding covenant:** To prevent potential future non-compliances and harm to communities and the environment, IFC's Management Action Plan includes a specific commitment that RCBC would incorporate Performance Standards requirements in binding agreements with its high-risk sub-projects. In both its December 2023 and November 2024 progress reports, IFC states that RCBC has not fulfilled this obligation to implement the inclusion of legally binding PS requirements in its loan agreements for future high-risk sub-projects.<sup>21</sup>

**CAO Comment:** Since its initial equity investment in 2011, IFC has legally required RCBC to apply the Performance Standards to its higher risk business activities.<sup>22</sup> This requirement was reaffirmed in subsequent IFC investments in the financial intermediary.<sup>23</sup> IFC's inability to ensure that RCBC applies legally binding E&S requirements to its higher-risk business activities is an obstacle to ensuring that the IFC Performance Standards are achieved over time, posing new and additional risks to IFC, and is a continuing non-compliance with IFC's Sustainability Policy (para 45) .

## Implications

The above analysis illustrates continuing gaps in this active client's application of IFC's E&S requirements to its higher risk business activities. CAO notes that this has been a requirement since the initial IFC-RCBC 2011 investment.

IFC's ongoing failure to assure itself that RCBC is applying its E&S requirements, in particular legally binding Performance Standard covenants to its high-risk sub-projects, makes IFC vulnerable to potential new and additional concerns regarding E&S risks and harms to the communities and environment in which these projects are located because.<sup>24</sup>

### *Workstream B: Assess and mitigate E&S risks and impacts of complaint sub-projects*

**Summary of IFC Update:** IFC reports that it completed the gap analysis reports for all 10 complaint sub-projects/power plants as of August 2024. In completing these reports, IFC's consultant visited four coal-fired power plants and IFC facilitated 20 stakeholder engagement meetings with complainants and project affected communities. Participants in these meetings were given the opportunity to voice their views on each of the power plants. In preparing these reports, IFC noted significant challenges in getting access to essential data to conduct the gap analysis. Following extensive efforts by IFC and its consultant, IFC reported that it received some additional information between December 2023 and June 2024 related to power plant Environmental Impact Assessments and continuous emissions monitoring data.<sup>25</sup>

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<sup>20</sup> IFC Progress Report (November 2024)

<sup>21</sup> IFC Progress Report, December 2023 and November 2024

<sup>22</sup> As per IFC's 2011 investment, RCBC was required to apply the Performance Standards to its higher risk business activities as of January 2012. For further details, see IFC investment disclosure (project number 30235) available at <https://bit.ly/4fEYA8E>

<sup>23</sup> This is an IFC self-requirement under IFC Sustainability Policy 2006 (para. 28) and 2012 (para. 35)

<sup>24</sup> This represents continuing non-compliance with para.45 of the Sustainability Policy – to ensure application of the Performance Standards (as per para.35 Sustainability Policy).

<sup>25</sup> IFC Progress Report, November 2024.

Following these activities, IFC's consultant prepared draft reports, which were reviewed by IFC, CAO, RCBC, the relevant power plant, and the complainants and their representatives.<sup>26</sup> IFC notes that its consultant received feedback on these draft reports prior to report finalization. In analyzing 70 environmental and social issues and community impacts raised in the CAO complaint, across the 10 complaint sub-projects/power plants, IFC's consultant concluded:<sup>27</sup>

- Eight issues for which the impacts were considered to have "Attribution"
- Thirty-five issues for which the impacts were considered to have "Likely attribution"
- Eleven issues for which the impacts were considered to have "Likely no attribution"
- Five issues for which the impacts were considered to have "No attribution"
- Eleven issues for which the impacts were considered "Inconclusive"

In relation to these findings, IFC's consultant made a total of 186 recommendations, ranging from 12-25 per coal-fired power plant. IFC reports that these recommendations fall into seven thematic areas: (i) improvement of EHS performance; (ii) enhancement of EHS monitoring; (iii) coal ash handling and ash pond management; (iv) stakeholder engagement and grievance redress; (v) assessing and addressing legacy resettlement concerns; (vi) assessing and addressing livelihood impacts; and (vii) community health.<sup>28</sup>

IFC reports that RCBC disagrees with the findings and recommendations of the gap analysis reports, and as a result RCBC discontinued its initial sharing of the reports with its clients including the power plant operators. Furthermore, IFC reports that it is not clear whether RCBC has discussed the consultant recommendations with these sub-projects or asked them to implement any of the findings.

IFC's November 2024 Progress Report also states that RCBC opposes disclosure of any of the reports, including the executive summaries, citing data privacy law and confidentiality agreements with its clients and with IFC.<sup>29</sup> IFC notes that it explored the possibility of disclosing the consultant's reports or at least the key findings but reached a conclusion that without RCBC consent it is not legally possible to disclose them.

**CAO Comment:** Though significantly delayed in implementation, CAO commends the efforts made by IFC staff and its consultant to complete the gap analysis reports for the 10 power plants. CAO also notes the significant efforts made by IFC to encourage the power plants to participate in the assessment process, and acknowledges IFC's determination to complete the stakeholder meetings, implement the report review process, and provide stakeholders with a second review of two draft gap analysis reports.

CAO acknowledges the significant challenges IFC and its consultant experienced in getting access to essential data on the power plants and commends their efforts to obtain relevant information to support the analysis. However, CAO notes that ambient air quality data was not

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<sup>26</sup> IFC notes that in line with the agreed Terms of References (ToR), the complainants and their representatives reviewed the executive summaries of these draft reports.

<sup>27</sup> IFC Progress Report, November 2024. IFC Progress Report notes that due to various limitations of the data sources, IFC's consultant exercised professional judgement to determine the attribution levels for each underlying issues, including "attribution", "likely attribution", "likely no attribution", "no attribution" and "inconclusive." CAO supported the IFC consultant exercising professional judgement in this situation.

<sup>28</sup> IFC Progress Report, November 2024

<sup>29</sup> IFC Progress Report, November 2024

obtained, and that this represents a significant omission given that many complaint issues relate to impacts of coal dust and coal ash on communities near the power plants.

As summarized in IFC's November 2024 Progress Report, the gap analysis reports document 43 of the 70 community and complainant issues as attributed or likely attributed to the power plants. In relation to these ongoing issues, IFC's consultant makes 186 recommendations to improve power plant E&S performance and/or address underlying complaint issues. The reports highlight 72 recommendations as actions that could be undertaken or initiated with relative ease compared to others, and in some cases, these actions do not require involvement of the power plant operator.

Despite the efforts that went into producing the gap analysis reports, IFC's progress report does not chart a path forward on how these recommendations are to be implemented. Instead, IFC notes that it is unclear whether RCBC has even discussed the gap analysis findings and recommendations with each of the power plant operators responsible for the many ongoing E&S issues identified.<sup>30</sup>

IFC does not propose to share the final Gap Analysis Executive Summary reports with complainants. It is CAO's view that these reports should be shared with the complainants. The draft reports were shared with them. Further, these reports are a major output of the MAP and were prepared using primarily public environmental information and consultation.

## Implications

The MAP approved by the Board 2.5 years ago committed to “**assess** and **mitigate** E&S risks and impacts of complaint sub-projects” (emphasis added).<sup>31</sup> While IFC has assessed the E&S risks and impacts, they have not been mitigated. Unless IFC and its client take additional action to strengthen MAP implementation, environmental and social impacts associated with the operation of the power plant sub-projects financed by IFC will remain largely unmitigated.

CAO notes the following key considerations in relation to finding a way forward:

- IFC and RCBC's 2011 legal agreement required RCBC to apply the Performance Standards to its investments.
- As noted in CAO's investigation report (2021), IFC's Management Report (2022) and IFC Progress Reports, RCBC did not include an E&S covenant requiring each power plant it financed to be developed and operated in accordance with these standards.
- Accordingly, these power plants were developed outside the framework and risk mitigation measures of the Performance Standards. Concurrently, CAO's investigation report documented critical failures in IFC's E&S supervision and provision of additional financing to RCBC.
- After consideration of all available information, and consultation with stakeholders, IFC's gap analysis reports demonstrate attribution and likely attribution to 43 issues (many of which are associated with considerable harm to local communities) and make an associated 186 recommendations.
- IFC's November 2024 Progress Report does not provide a path forward for resolution of these serious and pressing issues.

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<sup>30</sup> IFC Progress Report, November 2024

<sup>31</sup> IFC Management Action Plan, 2022. Available at <https://bit.ly/3ZgjOUT>



IFC's overarching Sustainability Policy commitment is to carry out its investment activities with the intent to "do no harm" to people and the environment, achieve positive development outcomes, and ensure the costs of economic development do not fall disproportionately on those who are poor or vulnerable, that the environment is not degraded in the process, and that renewable natural resources are managed sustainably.<sup>32</sup>

*Workstream C: Address Complaint Sub-Projects' greenhouse gas (GHG) emissions and improve climate related disclosure.*

**Summary of IFC Update:** IFC reports that it hired a consultant to undertake the GHG study with the 10 coal-fired power plants. While three power plant operators initially expressed interest in the study, RCBC reported to IFC in June 2024 that none of them had agreed to participate in the study because of confidentiality and disclosure concerns.<sup>33</sup>

In relation to other aspects of this workstream, IFC reports that RCBC declined to develop a new methodology for calculating and reporting GHG emissions from sub-projects with high emissions. IFC notes that RCBC had already signed up for the Partnership for Carbon Accounting Financials (PCAF) under which it would assess and disclose the GHG emissions associated with its financing activities.

**CAO Comment:** CAO's investigation report concluded that the investments in RCBC exposed IFC to financing coal-fired power plants without verification that they were developed or operated, in a manner that reflects cost efficiency, energy efficiency or GHG mitigation requirements under PS 3<sup>34</sup>, and thus are contributing more than necessary to climate change impacts.<sup>35</sup>

## Implications

Unless additional action is taken to strengthen the implementation of IFC's MAP, these power plants will continue to emit significant amounts of GHG emissions for decades to come and/or present a lost opportunity to enhance their energy efficiency.<sup>36</sup>

*Workstream D: Address underlying factors through development of Financial Intermediary (FI) Good Practice Notes (GPNs).*

**Summary of IFC Update:** In March 2023, IFC published two Good Practice Notes covering sample E&S covenants to be included in loan agreements and how financial intermediaries should assess GHG gases in financing subprojects.

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<sup>32</sup> IFC Sustainability Policy (2012), para 9.

<sup>33</sup> IFC Progress Report, November 2024

<sup>34</sup> PS3 requires a business to consider alternatives and implement technically and financially feasible and cost-effective options to mitigate project contributions to climate change. IFC's Environmental Health and Safety (EHS) Guidelines also include recommendations to avoid, minimize, and offset emissions of carbon dioxide from new and existing thermal power plants with a view to mitigating climate change impacts. Finally, PS3 includes measurement requirements to ensure that projects producing more than 25,000 tonnes of CO<sub>2</sub> annually are quantifying their GHG emissions following good international industry practice

<sup>35</sup> CAO Compliance Investigation Report, 2021

<sup>36</sup> CAO Investigation Report (2021) noted that the 11 power plants, once operational, would emit an estimated 40 million metric tonnes of CO<sub>2</sub> annually. This is equivalent to 30 percent of the Philippines total CO<sub>2</sub> emissions for 2019. RCBC has decided not to finance the Atimonan One Energy power plant. Based on the remaining 10 power plants, this would represent approximately 19.3 percent of the Philippines total CO<sub>2</sub> emissions. This is based on IEA estimates (2022) of the Philippines total CO<sub>2</sub> emissions of 138 million metric tonnes, see <https://bit.ly/3kEZLYB>.

**CAO Comment:** These systemic actions relate to IFC's overall financial intermediary portfolio. CAO compliance has an ongoing FI Audit monitoring activity in place, and will consider IFC's above actions as part of this broader monitoring process.<sup>37</sup>

## Conclusion

CAO will keep this case open under its compliance monitoring function.

IFC action to date does not demonstrate that IFC has effectively implemented its Management Action Plan (MAP) commitments to address CAO non-compliance findings and related Harm (see Annex A). The MAP set objectives to strengthen RCBC's approach to E&S risk management; to assess and mitigate power plant E&S risks and impacts; and to address power plant GHG emissions. Thirty months after the MAP's approval by the IFC Board, CAO finds limited evidence of any meaningful outcomes for complainants and project affected communities to date from these initiatives.

In particular, CAO finds the following shortcomings with project related commitments:

- **Workstream A:** IFC's supervision does not demonstrate that RCBC is implementing an ESMS to assess and manage the E&S risk of its sub-projects to IFC standards, including the legally binding application of the Performance Standards to high-risk sub-projects, resulting in continuing non-compliance with para.45 of the IFC Sustainability Policy.
- **Workstream B:** While IFC has made significant efforts to assess the E&S risks and impacts of the complaint sub-projects, the E&S risks and impacts identified have not been mitigated.
- **Workstream C:** The power plant operators have not participated in IFC's action to address GHG emissions from the sub-projects named in the complaint.

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<sup>37</sup> For further details of CAO FI Audit monitoring, see <https://bit.ly/3B2XWCP>

## Annex A: Summary of CAO Non-compliance findings and related Harm, and IFC MAP Commitments to address these findings

CAO Non-Compliance Finding and related Harm	IFC MAP Commitment
<p>Over the course of ten years since making its first investment, IFC has not verified that the client (a) is operating its ESMS as envisaged at the time of IFC's pre-investment review or (b) is applying the IFC Performance Standards to its high-risk sub-projects (ESRP 2009 and 2014, para. 9.2.5/6). IFC has made multiple investments in a commercial bank in the Philippines that is financing projects with high levels of E&amp;S risk without assurance of PS compliance. Further, available evidence suggests that through its investment in RCBC, IFC is exposed 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.</p>	<p><b><i>IFC committed to a series of actions to strengthen RCBC's ESMS implementation:</i></b></p> <ul style="list-style-type: none"> <li>• Action A.1: E&amp;S capacity needs assessment and enhancement</li> <li>• Action A.2: Incorporating PS requirements in a binding agreement for high-risk sub-projects</li> <li>• Action A.3: RCBC commitment to no coal financing</li> <li>• Action A.4: Reassessing RCBC's existing high-risk portfolio sub-projects against IFC PS</li> <li>• Action A.5: Revised Environmental and Social Action Plan (ESAP) between IFC and RCBC. See IFC Management Response and MAP for specific action items.</li> </ul>
<p>Adverse E&amp;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. IFC's response to the issues raised in the complaint has not provided assurance that the client has applied IFC E&amp;S requirements to the coal-fired power plants it financed as required by the ESRP (2014, para. 9.2.5).</p>	<p><b><i>IFC committed to assess and mitigate the E&amp;S risks and impacts of complaint-related sub-projects<sup>38</sup>, as follows:</i></b></p> <ul style="list-style-type: none"> <li>• Action B.1: Gap analysis of RCBC E&amp;S due diligence and leverage</li> <li>• Action B.2: Community and other stakeholder consultations</li> <li>• Action B.3: Sub-project sponsor (power plant operator) engagement</li> <li>• Action B.4: Mitigation and monitoring plan development for relevant power plants</li> <li>• Action B.5: E&amp;S performance monitoring.</li> </ul>
<p>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<sub>2</sub>, without significant evidence that they will operate in accordance with IFC's requirements to reduce greenhouse gas emissions.</p>	<p><b><i>IFC committed to a series of actions to address complaint sub-project GHG emissions and improve climate-related disclosure:</i></b></p> <ul style="list-style-type: none"> <li>• Action C.1: Onsite energy efficiency evaluation at RCBC-financed power plants</li> <li>• Action C.2: Improving climate-related measurement and disclosure</li> <li>• Action C.3: Improving overall E&amp;S disclosure.</li> </ul>

<sup>38</sup> The CAO Investigation covered 11 coal-fired power plants. Subsequent to the complaint submission to CAO, RCBC decided not to finance the Atimonan One Energy power plant. IFC's Management Action Plan, as approved by the Board, did not commit to undertake a gap analysis assessment of the Atimonan One Energy power plant. Accordingly, IFC's MAP commitment relates to 10 coal-fired power plants financed by RCBC.