IFC International Finance Corporation WORLD BANK GROUP

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Mr. Osvaldo L. Gratacós
Compliance Advisor Ombudsman
International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington DC 20433

IFC Management Response to CAO Compliance Investigation Report on IFC's Investment in India Infrastructure Fund (IIF)

Dear Mr. Gratacos,

IFC welcomes this opportunity to respond to CAO's Investigation Report (CAO Ref: C-I-R6-Y13-F-180) in relation to the investment in GMR Kamalanga Energy Limited (GKEL) made by India Infrastructure Fund ("IIF"), an IFC investee fund.

Mobilization of capital from public, private and institutional investors, including through private equity (PE) funds, is essential to achieving our development goals. Through its investments in PE funds, IFC not only catalyzes capital to support local companies in implementing important projects, but also helps to build local capacity in sustainable investing, which goes beyond those specific projects. While they present significant development opportunities, we also recognize that some PE funds make investments in subprojects that may have important environmental and social (E&S) risks that need to be carefully managed. IFC continually incorporates lessons learned from its past investments in PE funds and employs increasingly greater selectivity when it comes to investing in PE funds with potentially high E&S risks.

Overall, IFC agrees with CAO's general conclusions regarding IFC's performance vis-a-vis IIF and its experience supervising the investment in GKEL. We appreciate CAO's recognition that IFC's systems-based approach to managing E&S risks in its Financial Intermediaries (FIs) investments can increase the reach and impact of IFC's environmental and social standards. There have been important lessons for IFC in this regard and our learnings from IIF and from the 2011 CAO FI sector audit have led to substantial and continuous improvement in IFC capacity, processes and expertise needed to manage these risks, as detailed below.

When first considering whether to work with a fund, IFC agrees with CAO that establishing its commitment and capacity to implement an Environmental and Social Management System (ESMS) is central to meeting the requirements of IFC's Performance Standards. Since 2008, we have intensified our due diligence in determining the capacity of our potential clients in this regard. Based on lessons learned, we now thoroughly review the track record and/or commitment of the Fund Manager(s) and/or in-house E&S expertise. In cases where the in-house expertise may not exist, we encourage all high-risk PE funds to engage appropriate qualified experts in undertaking E&S due diligence and supervision of subprojects with potentially high E&S risks. IFC now also reviews a fund's E&S assessments for its first three investments and for all its

Category A projects. Additionally, IFC has recently launched an E&S training program targeted to PE fund managers to help strengthen capacity where needed.

We also agree that IFC's investment agreements should provide sufficient leverage and remedies to manage risks when problems arise. While the Report characterizes the E&S covenants governing IIF in 2008 as inadequate, we believe that the investment team followed an approach that reasonably provided meaningful protections, in a complex legal environment and at a time when ESG requirements were not well advanced in the market.

Since that time, based on learning from experience with a wide range of funds, IFC has implemented several measures to strengthen our investment agreements governing PE funds. IFC now routinely asks for, amongst other aspects, rights to: (a) visit the premises of a fund's portfolio companies and have access to their books and records to monitor E&S compliance; (b) request the fund to implement corrective measures with non-performing subprojects or exercise reasonable efforts to terminate financing; and (c) disclose information necessary to comply with its E&S obligations in accordance with the IFC Access to Information Policy.

IFC agrees with CAO that, ideally, all key assessments should be completed prior to first disbursement. However, IFC also recognizes that, in cases such as this one, some elements of an assessment may need to be completed post disbursement, depending on factors such as statutory requirements, the timing of the fund's involvement in a subproject, the subproject's stage of development, the number of disbursements expected, the availability of financial and/or other leverage, fund/client representation and track record.

The CAO report also highlights the importance of adaptive supervision of funds with potentially high E&S risks, which IFC had adopted in this case. IFC has since further streamlined and strengthened its approach to adaptive supervision. IFC acknowledges that in the absence of access to the site, our views on the nature and scale of some of the risks and impacts at GKEL proved incomplete. In this case, a detailed subproject level action plan would ideally have been developed sooner.

In relation to some of the environmental findings in the report, IFC would like to clarify that the Environmental Health and Safety (EHS) Guidelines of 1998 were relied upon only for stack emission limits. For ambient air quality purposes, the more current EHS Guidelines of 2007 were relied upon, and the measures proposed by GKEL to minimize impacts on ambient air quality are in line with those provisions.

IFC agrees with CAO's observations on the linkage between transparency and accountability. Accordingly, in line with IFC's 2012 Access to Information Policy, IFC now discloses subproject information related to its private equity investee funds. In relation to CAO's finding on IIF's disclosure obligations under Performance Standard 1, IFC would like to clarify that responsibility to disclose E&S project information under Performance Standard 1 lies with the subproject and not the fund itself.

Lastly, we would like to note that IFC remains committed to working with IIF and GKEL to improve project performance and address outstanding issues. IFC has taken a constructive and multi-pronged approach towards resolving the situation by engaging extensively with all parties at the highest levels in the respective organizations. This approach has resulted in a collaborative effort to address areas for improvement at GKEL, and to enhance IIF's performance generally.

Specifically, in consultation with IIF, GKEL: (a) has completed a third-party audit to assess compliance with the Performance Standards and developed an action plan to address the identified gaps; (b) is in the process of implementing the action plan; (c) has engaged a third party to assist it in development and implementation of a livelihood restoration plan and a stakeholder engagement plan, including improvements to its existing grievance redress mechanism.

IFC has also worked with IIF to enhance its own ESMS and E&S performance. Among other things, working with IFC, IIF (a) has agreed to engage with portfolio companies and projects that were Category A at the time of the Fund's investment to undertake third-party audit for assessing compliance with Fund's Environment and Social Action Plan; (b) will develop action plans based on the audit findings; (c) will work with respective portfolio clients to ensure that the action plans are implemented; and (d) has agreed to supervise and obtain assurance on full implementation of these action plans through a completion audit.

IFC is engaged with the sponsors of GKEL and IIF to agree on a GKEL-specific Action Plan as proposed in Annex A. The Annex also includes the Action Plan committed to by IIF for its other portfolio companies.

Learnings from this experience and others continue to be reflected in proactive improvements to IFC's investment and supervision approach. For example, to ensure IFC remains focused on the E&S performance of its clients, we will not do repeat business with clients that do not improve their track record on E&S performance. This also applies to our FI clients.

IFC remains committed to working with our FI partners to strengthen their ESMS implementation and to improve E&S outcomes. We will continue to support IIF in its efforts to improve its own E&S performance and the performance of its investee companies, including GKEL. Even as these steps are underway, we assure CAO of our commitment to strengthen our procedures and practices, and to continue our dialogue with our stakeholders in this regard.

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Vice President
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Annex A

DRAFT ACTION PLAN

#	GKEL Specific Action Plan	Scheduled Completion
While GKEL ("Company") and GMR foundation with the help of IIF have carried out a significant number of activities for community betterment over the past 5 years, the company recognizes that there is always scope for improvement and better delivery. Hence, on IIF's suggestion, the Company had appointed ERM to suggest ways and means of strengthening its community engagement programs and to ensure compliance with the IIF action plan as was agreed at the time of its investment. IIF commits to put in best efforts to influence GKEL to:		
1.	Complete implementation of the action plan based on findings of the third-party audit of July 2014 excluding the actions listed at points 2, 3, 4 and 5 below.	October 2016
2.	Complete development of a Livelihood Restoration Plan and a Stakeholder Engagement Plan.	March 2016
3.	Complete implementation of the livelihood restoration plan.	December 2018 subject to timelines evolved as part of livelihood restoration plan to be submitted by ERM
4.	Complete implementation of the stakeholder engagement plan.	June 2016
5.	Implement third-party suggestions for improved grievance redress mechanism in consultation with affected communities.	March 2016
6.	Independent Audit confirms completion of all of the above actions.	Within 3 months of date for #3 above
7.	In accordance with Fund's Performance Standard 1 provisions, disclose to Affected Communities the audits, assessments, action plans and periodic updates on status of implementation of action plans. The disclosure process is outlined hereunder: - Disclose to affected communities (as identified by ERM in their LRP study which is being undertaken in the framework of Fund Performance Standards) findings and action plan of July 2014 ERM audit. - Disclosure would involve translating the document into local language, placing both English and local language versions at a nearby third-party location (e.g. Panchayat, Bank, school, local lawyer acting as a trustee). - GKEL to put up a notice in the local Panchayat announcing the public availability of these documents including details of where they are kept and the modalities of accessing the documents. - ERM to witness the local disclosure and confirm. - Ongoing disclosure and consultation with Affected Communities to be undertaken as per the stakeholder engagement plan to be developed pursuant to action point #2 above.	Ongoing basis in a reasonably timely manner

	- GKEL will document the disclosure and consultation for the benefit of independent closing audit as mentioned in action point #6 above.	
#	**IIF Action Plan**	**Scheduled Completion**
While IIF has done upfront diligence to ensure compliance with Performance Standards and has documented commitment of its portfolio companies to adhere to the Performance Standards in its Investment Agreements, in order to further improve effectiveness of implementation, IIF commits to put in best efforts to:		
1.	Engage with all portfolio companies and projects that were Category A at the time of Fund's investment for undertaking and completing third-party audits to assess compliance with Fund's Performance Standards and Fund's environment and social action plan.	All audits to be completed by September 2016
2.	Work with the respective portfolio companies to evolve action plans to address the gaps (if any) identified in the above mentioned (at point 1 above) audits.	All action plans to be finalized by December 2016
3.	Engage with the portfolio companies to complete implementation of the action plan developed pursuant to Action #1 above for each of the respective portfolio companies including disclosure in accordance with the Fund's Performance Standards requirements. The disclosure process is outlined hereunder: - Disclose to affected communities (as identified by consultant being undertaken in the framework of Fund Performance Standards). - Disclosure would involve translating the document into local language, placing both English and local language versions at a nearby third party location (e.g. Panchayat, Bank, school, local lawyer acting as a trustee). - Portfolio company to put up a notice in the local Panchayat announcing the public availability of these documents including details of where they are kept and the modalities of accessing the documents. - Third-party consultant will witness the local disclosure and confirm. - Ongoing disclosure and consultation with Affected Communities to be undertaken as per the stakeholder engagement plan to be developed pursuant to action #2 above. - IIF will document the ongoing disclosure and consultation for the benefit of completion audit as per point #4 below.	Respective Completion Timelines would be dependent on the action plan finalized
4.	Complete a third-party action plan completion audit at each of the portfolio companies where a third-party audit was undertaken pursuant to Action #1 above.	Within 3 months of the scheduled date of completion of all actions in the respective action plans of each of the portfolio company