



The Independent Accountability Mechanism for IFC & MIGA

Responsible Exit

**Discussion and Practice
in Development Finance
Institutions and Beyond**

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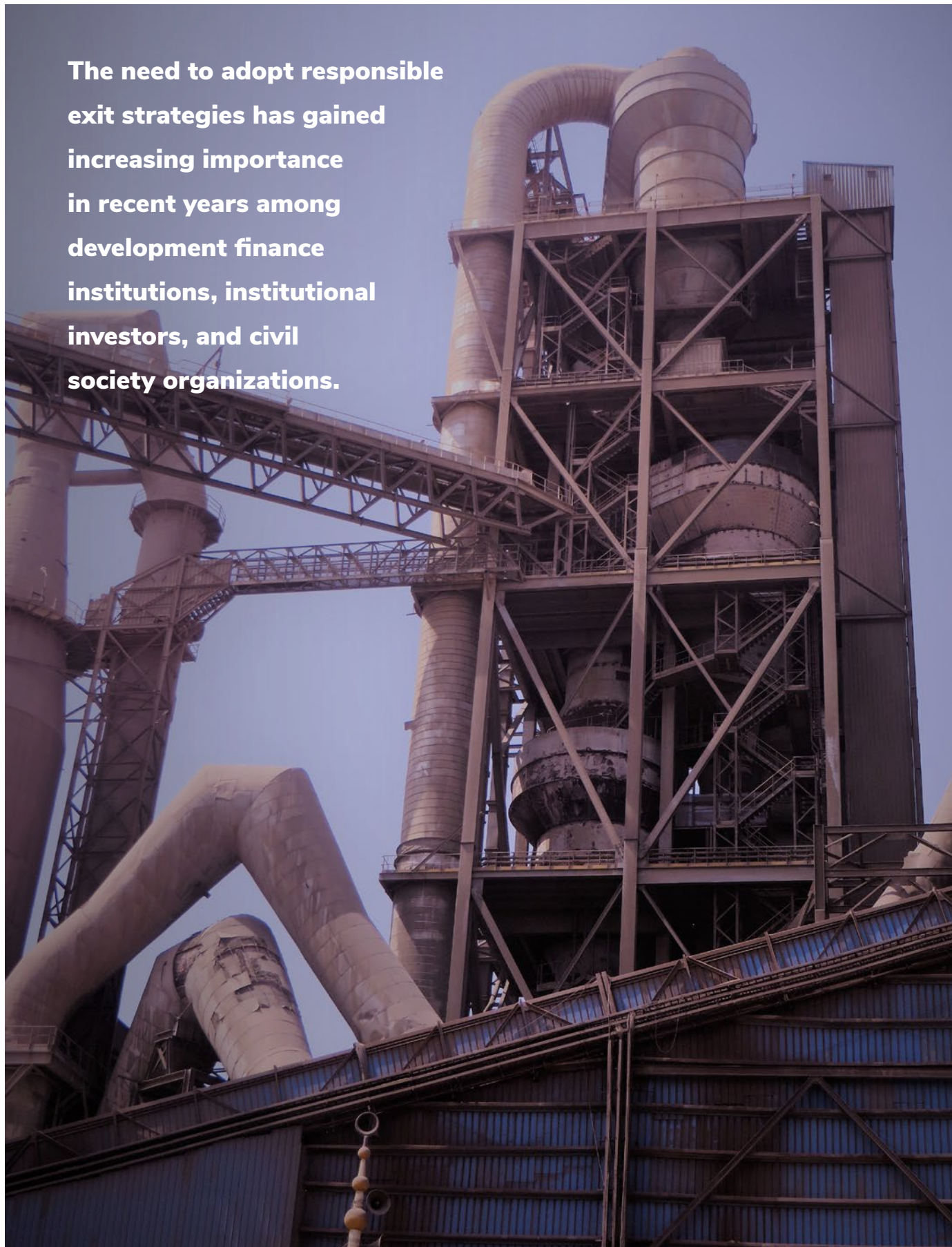
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The need to adopt responsible exit strategies has gained increasing importance in recent years among development finance institutions, institutional investors, and civil society organizations.



Executive summary

The need to adopt responsible exit strategies from investments has gained increasing importance in recent years among development finance institutions (DFIs), institutional investors, other types of impact investors, and civil society organizations (CSOs). This trend follows a series of high-profile cases where exits by investors have resulted in reported social, environmental, and human rights impacts or conflicts that have resulted in harm to people in the project area. These projects have also raised questions about the responsibility of investors that divest in situations where there are significant ongoing environmental and social (E&S) issues, as well as the related issue of remedy in situations where adverse impacts remain.

One of these cases was subject to a CAO compliance investigation,¹ initiated after a complaint regarding an investment by the International Finance Corporation (IFC) in a financial intermediary, CIFI/Hidro Santa Cruz. Following CAO's findings, IFC made a commitment to review its policies and procedures on investment exit and in particular to define its approach to "responsible exit" and has been discussing and developing such an approach, along with a framework on remedial actions.²

About the findings

This report presents the findings of a landscape study that looked at how responsible exit is being framed and approached by a range of actors. Participants included development finance institutions (DFIs) and banking institutions, impact investors, and civil society organizations (CSOs) that were considering, trialing, and/or developing policy, guidance, or practice related to responsible exit. Based on interviews, a roundtable, a survey, and a literature review, the study identified:

- ▶ the drivers behind the adoption of responsible exit approaches;
- ▶ the frameworks that financial actors are applying in developing these approaches;
- ▶ the current scope of application of responsible exit; and
- ▶ the types of practices being developed and institutionalized by DFIs and other investors.

Based on the findings, CAO offers conclusions for investment institutions on advancing responsible exit strategies, as well as an analysis of the study's implications for IFC in particular. As thinking about responsible exit is still evolving and practices are nascent, challenges in implementation are still being identified and worked through. For this reason, the conclusions in the report have not benefited from an analysis of challenges. Lessons from piloting and early implementation will be valuable for refining strategies and the individual practices noted herein.

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1. IFC made equity and debt investments in CIFI in 2008. CIFI made an investment in the Hidro Santa Cruz (HSC) for the construction of the Canbalam hydropower plant (the project) in Santa Cruz Barillas. A complaint was received about CIFI in July 2015 alleging that the project never properly consulted with the indigenous communities and that community members' opposition to the project had been met with violence and repression on the part of the company and the government. CAO conducted an assessment in October 2015 and released a compliance appraisal report in August 2016. The compliance appraisal concluded that an investigation was warranted in response to this complaint. CAO completed its compliance investigation in December 2018.
 2. https://www.cao-ombudsman.org/sites/default/files/downloads/IFCManagementResponseCIFIReport_April232020.pdf

WHAT IS RESPONSIBLE EXIT?

Core elements identified^a

Responsible exit approaches start early in the investment life cycle. Responsible exit seeks to ensure the sustainability of environmental and social (E&S) risk management and/or that the positive impacts of investments endure after exit.

It involves preparing for exit in a way that avoids or mitigates harm to people or the environment. It also requires consideration of possible adverse impacts that might arise from the act of exiting as part of decision on whether or not to exit, and the timing of exit.

When exiting, a responsible exit involves taking action to mitigate harm, and enabling and providing remedy for any residual impacts to which the investment has contributed.

Responsible exit, for many investors, is not an additional commitment; instead, it is seen as a way of enhancing the operationalization of existing commitments and intent that DFIs and other investors have to do no harm, mitigate E&S risks, enable or provide remedy for harm^b if it does occur, and sustain the positive impacts of the investment.^c

- a. These core aims and elements were compiled based on standards noted in Appendix B and from the full range of what study participants revealed to be their organization's view of "responsible exit." There is no consensus at this time on a definition of "responsible exit."
- b. The investor's role in the provision of remedy can be determined according to the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises (see Appendix B). See also examples of existing commitments, such as the Environmental and Social Policy and Procedures of the US Development Finance Corporation (DFC), which notes that "DFC will ensure through its processes that projects receiving support: [...] Avoid adverse impacts and, if such impacts are unavoidable, properly mitigate or compensate for the impacts (p. 3, para. 1.3). IFC's Sustainability Policy also notes, with regard to direct investments, "Where there are significant environmental or social impacts associated with the business activity, including past or present adverse impacts caused by others, IFC works with its client to determine possible remediation measures" (p. 5, para. 26). With regard to the Performance Standards, the Policy notes "Central to these requirements is the application of a mitigation hierarchy to anticipate and avoid adverse impacts on workers, communities, and the environment, or where avoidance is not possible, to minimize, and where residual impacts remain, compensate/offset for the risks and impacts, as appropriate" (p. 2, para. 6).
- c. IFC's Sustainability Policy notes that "IFC believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which IFC pursues and expects to achieve through the application of this Policy on Environmental and Social Sustainability (the Sustainability Policy or the Policy), and a comprehensive set of environmental and social Performance Standards" (Section I, Purpose of this Policy, p. 1, para. 1). Further, the Policy notes: "Central to IFC's development mission are its efforts to carry out investment and advisory activities with the intent to "do no harm" to people and the environment, to enhance the sustainability of private sector operations and the markets they work in, and to achieve positive development outcomes. IFC is committed to ensuring that 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" (Section II, Commitments, p. 2, para. 9, International Finance Corporation's Policy on Environmental and Social Sustainability, January 1, 2012).

Summary of research findings

Responsible exit drivers: Key drivers identified by DFIs surveyed include their existing commitments to manage environmental and social (E&S) risk, the need to plan for investment exit, and increased advocacy and scrutiny from CSOs, the media, and member governments. For banking institutions, shareholder and CSO pressure to deliver improved environmental, social, and governance (ESG) performance were cited as driving momentum for adopting responsible exit strategies. Compliance investigations by independent accountability mechanisms have also highlighted challenges related to exit, and have made recommendations toward exiting responsibly.

Responsible exit frameworks: Few investors other than some impact investors have disclosed a dedicated policy or framework for responsible exit. However, several international frameworks reference exiting responsibly from an investment, including the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises, and the Operating Principles for Impact Management. IFC co-launched the Operating Principles in 2019 and hosts its secretariat.

Responsible exit scope: Responsible exit can apply to a wide range of financial instruments or types of investments, and to all stages of the investment life cycle, from mitigating E&S risks to assuring sustainable E&S performance. Leading practice among DFIs involves integrating responsible exit considerations in both planned exit strategies from equity and early, unplanned exit from equity or debt, even when an unplanned exit is unrelated to E&S impacts.

Responsible exit practice: Study participants' views aligned with the guidance of standard-setting organizations that a responsible exit involves detailed preparation and planning. Most DFIs surveyed and some banks that this study looked at are currently developing or trialing practices. Approaches fall broadly into three stages: preparing for exit; deciding to exit; and designing and executing exit. Preparation begins as early as the project due diligence phase, by assessing potential adverse impacts and client capacity and commitment. Participants identified using leverage over investees, engaging stakeholders, and understanding the E&S impacts of exiting as critical throughout the process.

Table 1 summarizes practices considered or used by investors surveyed. Table 2 presents key elements of responsible exit based on the findings of the landscape study.

Table 1. Snapshot of responsible exit practices considered or used by investors surveyed

	PRACTICES BEING USED OR TRIALED AT TIME OF SURVEY (2021)	PRACTICE CONSIDERED BY RESPONDENTS AS RELEVANT TO RESPONSIBLE EXIT
Common	Pre-exit E&S risk and impact assessment	Yes
	E&S-focused exit memorandum	Yes
	Enhanced stakeholder engagement at exit	Yes
	Pre-exit human rights assessment	Yes
Emerging	Leverage assessments	Yes
	Amended contractual terms	Yes
	Enhanced client due diligence	Yes
	Buyer due diligence	Yes
Future	More regular supervision/field assessments	Yes
	Co-financer due diligence	Yes
	Post-exit assessments	Yes

Table 2. Key elements of a responsible exit based on study findings

ELEMENTS OF RESPONSIBLE EXIT
✓ Planned for during due diligence, with investors building appropriate leverage and risk mitigation into the investment structuring, covenants, other terms, and conditions.
✓ Effective supervision of the project and monitoring of client grievance mechanism to identify emerging risks.
✓ Existing leverage and new opportunities for leverage are identified and used toward enhanced E&S risk management.
✓ Capacity of the client is built to sustain good E&S performance.
✓ Stakeholder engagement identifies the views of project-affected people and latent risks, and informs decisions.
✓ A decision to exit is made considering E&S risks and sustaining good E&S performance.
✓ Adverse impacts are remediated.
✓ The client and project sustain sound E&S management after the investor exits.

Summary of conclusions

The landscape study yielded six key conclusions regarding current guidance by standard setters, as well as thinking and practice by investors on responsible exit. These findings are relevant for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), as well as other investors.

1. Responsible exit approaches have support among a group of DFIs and other leading institutional investors and CSOs. Earlier approaches to responsible exit that focused on remedying harm are now also including more proactive elements — such as adding an E&S risk lens when assessing when to exit, and taking steps early in the investment cycle to increase the likelihood of exiting responsibly from an investment.
2. Evolving approaches to responsible exit build on and seek to operationalize existing commitments and intent by investors, and standards set by international organizations.
3. A responsible exit is more than a decision as to whether or not to exit when there are risks or adverse impacts. It is a proactive strategy for exit that seeks to manage risks, address adverse impacts, and, for some investors, to sustain positive environmental and social impacts.
4. A responsible exit entails planning, preparation, and actions from early in the investment life cycle. Understanding, building, and effectively using leverage with investees is central to responsible exit.
5. The views of impacted communities and individuals are vital in informing investor decision and plans for exiting responsibly; meeting the aims of mitigating harm before and during exit; and leaving sound policies, systems, and practices for ongoing positive environmental and social performance by the project.
6. Responsible exit approaches are relevant for, and can be applied to, a wide range of investment products and to lower-risk projects as well as high-risk ones.





Introduction

Context

Interest is growing among development finance institutions (DFIs), institutional investors, and civil society organizations (CSOs) in better planning and execution of exits from investments in private sector projects and entities. This interest in developing “responsible exit” strategies follows several high-profile cases where exits from projects have left alleged adverse environmental and social (E&S) impact unaddressed.

Financial institutions (FIs) have attracted significant negative attention from CSOs, the media, and shareholders in recent years after divesting from projects that had adverse impacts on the local communities with no further involvement or effort to remediate the impacts (see Appendix A for examples).

As a result, there is growing attention among financial institutions and other stakeholders about the need to exit from investments with due consideration to commitments to “do no harm,” to whether exit will exacerbate existing E&S risks stemming from the investment or lead to additional impacts, and, finally, to how the institution can ensure that positive impacts endure. CSOs have pressed for broad divestment from types of projects, such as fossil fuel plants, that have negative implications for climate change, pollution, and biodiversity. At the same time, there is growing recognition that unplanned divestment from development projects without addressing the local consequences can also lead to significant harm to communities.

DFIs, in particular, face responsible exit challenges related to their mandates and investment strategies. Many have explicit strategies to invest in markets where poverty levels are high or financing options weak. For example, the International Finance Corporation (IFC) is committed to investing in fragile and conflict-affected states (FCS) and low-income countries eligible for assistance from the International Development Association (IDA)³ — markets where investors face greater risks associated with weak governance or an unstable political context. Recent events in China, Myanmar, and the Russian Federation, for example, have shone a spotlight on how political, environmental, and social risks in high-risk markets can rapidly escalate. These circumstances necessitate an enhanced approach to identifying and managing risk, including preparing from the outset for effective and responsible exits from high-risk investments in ways that minimize adverse E&S impacts in the event of an unplanned or early exit.⁴

3. IFC has pledged to invest 40 percent of its annual commitments in IDA-recipient and FCS markets by 2030. See https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/fcs/ifc-fcs

4. For instance, Norwegian-owned company Telenor faced a business ethics dilemma in 2021 in divesting from its telecommunications investment in Myanmar following the military takeover in February 2021 and the EU sanctions that followed. Telenor had played a key role in connecting Myanmar to the internet, providing access to more than 18 million people in the country, and in digitalizing the economy. In addition to rolling back this progress, divestment created the real risk that data held by Telenor and handed over to the new owner would be used by the military to identify and persecute oppositionists. See civil society complaint to OECD National Contact Point (NCP), claiming: “Telenor failed to conduct appropriate risk-based due diligence...prevent or mitigate human rights impacts potentially arising from the sale.” <https://www.oecdwatch.org/complaint/somo-representing-474-myanmar-csos-vs-telenor-asa/>

In response to these concerns, for the past few years investors, multilateral agencies, and policy organizations have been examining how to exit development projects responsibly. The complex questions they are seeking to address include:

- ▶ How can a responsible exit be planned for?
- ▶ What can be done to address adverse impacts that remain around the time of exit?
- ▶ Is an exit “responsible” if the investor has a relationship to harm/adverse impacts that have been left unremediated?
- ▶ Is an exit “responsible” when an investor exits but has not used its position to drive or influence whether E&S risks are effectively managed or whether adverse impacts are remediated?
- ▶ Does a responsibility to provide or enable remedy end simply because an investor has exited the investment, regardless of whether or not adverse impacts were known at the time of exit?

Investors including DFIs and banking institutions are at different stages in the development of responsible exit policies and practices. There is broad agreement among them, however, that divesting from problematic investments is just one aspect of responsible exit, and that exits require careful planning and attention in order to “do no harm,” manage E&S risks, and sustain positive impacts. These approaches and the current “state of play” on responsible exit — based on CAO’s research findings as well as guidance by standard setters — are described in the sections that follow.

IFC is among the institutions actively developing an approach to exiting responsibly from investments. In response to a CAO compliance investigation of IFC’s investment in a financial intermediary ([CIFI/ Hidro Santa Cruz in Guatemala](#)), IFC committed to review its policies and procedures as they relate to aspects of exiting an investment, as well as to define its approach to “responsible exit.” The results of this process and the framework IFC uses to guide its approach may be viewed by peers as a standard to follow.⁵ As other DFIs and investors codify their responsible exit approaches, many look to IFC’s leadership in establishing good practice and guiding peers as well as clients.

About this study

This landscape study was undertaken to support IFC’s efforts to establish approaches to exiting investments responsibly.⁶ The study synthesizes how responsible exit is being framed and approached by a range of organizations including DFIs, other financial institutions such as banks, and impact investors that are considering, trialing practices, and/ or developing policy and guidance related to responsible exit. While the term “responsible exit” is relatively new and currently there is not broad agreement on what it means, this study found considerable overlap among different types of investors, and relevant international frameworks, as to what it entails.

5. Referring to IFC’s commitment regarding responsible exits, the United Nations Office of the High Commissioner for Human Rights (OHCHR) noted in its 2022 Remedy in Development Finance report that “[IFC] will undoubtedly set an important precedent for DFIs globally.”

6. The research was undertaken jointly with Shift, a nonprofit organization with expertise in the application of the UN Guiding Principles on Business and Human Rights (UNGPs) to corporate practices.

The study included companies in the real sector that have developed learnings, through their own contractor and responsible supply chain management approaches, that may be transferable to this context. The study also presents the views of CSOs that have reported on the impact of specific investments and exits and have made recommendations for improved practices.

The main research questions posed were:

- ▶ What are the drivers behind the adoption of responsible exit approaches?
- ▶ Are existing standards, guidance, and frameworks being applied in developing these approaches?
- ▶ How is responsible exit being understood, and how can it be achieved?
- ▶ What kinds of practices related to responsible exit are being developed and institutionalized?

The main body of this report is organized around the findings related to each of these questions, followed by the conclusions that CAO drew from its research.

Methodology

The methodology focused on primary data collection to identify current thinking and practices on responsible exit among financial actors engaged in this issue. Interviews and surveys were conducted with five financial institutions, four development finance institutions, and one banking institution, two companies in the real sector (textiles and garment manufacturing and marine and port services), three CSOs, one standard-setter (the United Nations Office of the High Commissioner for Human Rights, OHCHR), and the secretariat of an impact investors network.⁷

The study also reviewed information on specific investments, including project documentation, investigations conducted by independent accountability mechanisms (IAMs), and CSO reporting, in order to analyze the management of the investment and external commentary or findings made. In addition, CAO reviewed other studies and academic papers, as well as guidance and commentary by standard-setters.⁸ The objective was to identify standards, regulations, trends, research, and lessons learned from other sectors that could provide additional insights into effective responsible exit approaches.

Once the initial findings were completed, CAO and IFC jointly convened a peer roundtable, facilitated by Shift, with participants from DFIs and the Global Impact Investor Network (GIIN). CAO and Shift held additional meetings with IFC to present and discuss the study's findings and inform their approach to responsible exit policy and practice. In forming its conclusions, CAO also looked at guidance from the OHCHR and the Organisation for Economic Co-operation and Development (OECD) on broader issues related to responsible exit, such as remedy and stakeholder engagement.

7. The participants were selected and agreed to participate in the study on the understanding that their insights were to inform the approach of a leading (unnamed) development finance institution, and that the insights gathered would be shared with them. Each of the investors included in the study was identified because they had commenced thinking on responsible exit, and expressed interest in learning what others were doing.

8. The primary standard-setters on the topic of responsible exit are OHCHR and OECD. There is also guidance from GIIN and CGAP.

The interviews, survey, and peer roundtable were all conducted under the Chatham House Rule. While this means CAO cannot name participants or attribute information provided to a specific individual or organization, the study presents valuable insights and information on approaches and practices to responsible exit that participants may not have made public. However, the state of practice is still evolving and this study does not seek to present an exhaustive list or a representative sample of investors' approaches to responsible exit. Nor does it discuss potential challenges to implementing an approach to responsible exit. Rather it highlights leading thinking and practice at the time the study was conducted.

WHAT IS RESPONSIBLE EXIT?

Core elements identified^a

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When exiting, a responsible exit involves taking action to mitigate harm, and enabling and providing remedy for any residual impacts to which the investment has contributed.

Responsible exit, for many investors, is not an additional commitment; instead, it is seen as a way of enhancing operationalization existing commitments and intent that DFIs and other investors have to do no harm, mitigate E&S risks, enable or provide remedy for harm^b if it does occur, and sustain the positive impacts of the investment.^c

- a. These core aims and elements were compiled based on standards noted in Appendix B and from the full range of what study participants revealed to be their organization's view of "responsible exit." There is no consensus at this time on a definition of "responsible exit."
- b. The investor's role in the provision of remedy can be determined according to the UNGPs and the OECD Guidelines for Multinational Enterprises (see Appendix B). See also examples of existing commitments, such as the Environmental and Social Policy and Procedures of the US DFC, which notes that "DFC will ensure through its processes that projects receiving support: [...] Avoid adverse impacts and, if such impacts are unavoidable, properly mitigate or compensate for the impacts (p. 3, para. 1.3). IFC's Sustainability Policy also notes, with regard to direct investments, "Where there are significant environmental or social impacts associated with the business activity, including past or present adverse impacts caused by others, IFC works with its client to determine possible remediation measures" (p. 5, para. 26). With regard to the Performance Standards, the Policy notes "Central to these requirements is the application of a mitigation hierarchy to anticipate and avoid adverse impacts on workers, communities, and the environment, or where avoidance is not possible, to minimize, and where residual impacts remain, compensate/offset for the risks and impacts, as appropriate" (p. 2, para. 6).
- c. IFC's Sustainability Policy notes that "IFC believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which IFC pursues and expects to achieve through the application of this Policy on Environmental and Social Sustainability (the Sustainability Policy or the Policy), and a comprehensive set of environmental and social Performance Standards" (Section I, Purpose of this Policy, p. 1, para. 1). Further, the Policy notes: "Central to IFC's development mission are its efforts to carry out investment and advisory activities with the intent to "do no harm" to people and the environment, to enhance the sustainability of private sector operations and the markets they work in, and to achieve positive development outcomes. IFC is committed to ensuring that 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" (Section II, Commitments, p. 2, para. 9, International Finance Corporation's Policy on Environmental and Social Sustainability, January 1, 2012).

While the term responsible exit is relatively new and currently there is not broad agreement as to what it means, this research study found considerable overlap (among different types of investors, and relevant international frameworks) regarding its core elements. At a minimum, responsible exit is understood by some financial institutions as operationalizing existing commitments to “do no harm” in the context of their divestment from a project. This commitment is already embedded in the mandate of DFIs, including an intent by IFC, and requires investors to anticipate and provide for the mitigation and remediation of adverse impacts on people throughout an investment’s life cycle, including exit. Among impact investors,⁹ the concept of exiting responsibly goes further, and is seen as part and parcel of strategies for sustaining an investment’s positive impact at the project level after divestment.¹⁰

Among global standard-setting organizations, the UN Office of the High Commissioner for Human Rights describes responsible exit as the corollary of responsible entry into projects. “The responsible exit concept is intended to address problems that may arise when insufficient attention is given to unresolved environmental and social issues that are still occurring towards project closure or when DFIs exit projects (whether as a planned or early exit) without adequate consideration of unremediated harm.”

Across interviewee types, there was also broad acknowledgment that exiting responsibly from an investment is not simply about a single decision point, where the investor must decide whether and how to exit. Instead, it should be treated as an integral and ordinary part of investment design, with a process that starts early in the investment cycle.¹¹

However, our research found little consensus at this time among financial institutions and other stakeholders on the practicalities of conducting a responsible exit: the processes, practices, and tools needed for implementation. Participants agreed that preparation and planning at the start of the investment life cycle is critical to building effective responsible exit strategies. Beyond that, different organizations are developing and implementing separate approaches, described in the section “How is responsible exit interpreted and how can it be achieved”?

Drivers of responsible exit: Who is engaging and why?

As the spotlight grows on how investors can exit responsibly from investments, the stakeholders convened by CAO shared reflections and actions that seek to turn the concept of responsible exit into on-the-ground reality.

This section describes these organizations and presents our study findings on the major drivers behind responsible exit approaches. While some drivers are relevant to all the financial organizations that participated, there are differences in motivating factors among DFIs, banks, and impact investors, as summarized in Table 3. Our research also suggests that these varying drivers affect the overall approach taken by each investor type and each individual investor, in addition to their organizational mandate.

9. See, for example, UK government’s investment arm, British International Investment (BII) (formerly CDC) Policy on Responsible Investing. Section 4.4 on Exiting Investments notes that BII conducts a responsible exit review in order to identify “ways in which we can enable continuing commitments to good international E&S and BI practices after an investment is complete.” See <https://toolkit.bii.co.uk/working-with-bii/policy-responsible-investing>

10. See GIIN (2019). “Lasting Impacts: The Need for Responsible Exits.” <https://thegiin.org/research/publication/responsible-exits>

11. OHCHR (2022a) notes: “It is important to consider how the potential environmental and social impacts of exit could be integrated within project due diligence from the earliest stages of the project cycle” (p. 94). GIIN (2019) notes, “Investors take steps to responsibly exit their investments throughout the investment lifecycle, starting from the initial sourcing of investments” (p. 22).

Table 3. Snapshot of responsible exit drivers by investor type

ORGANIZATION TYPE	DRIVERS
DFIs	• Implementation of existing commitments to manage E&S risk, including institutions' sustainability framework and UNGPs. • Advocacy from CSOs. • Increased scrutiny from the media. • IAMs' investigations and recommendations. • Member governments seeking coherence with other E&S commitments and national policies. • Need to plan for exit. • Possible need to enable or provide remedy.
Commercial banks	• Shareholder pressure for stronger ESG performance. • Increased scrutiny by media. • Pressure from CSOs. • Alignment with commitments to international standards. • Standardize their ESG practices and reporting in line with industry good practice.
Private impact investors	• Impact investing models emphasize sustainability of positive impacts. • Shareholders/positive ESG ratings. • Value creation in portfolio companies.

Development finance institutions

DFI interviewees noted several reasons for adopting responsible exit policies and practices. First and foremost, they cited critiques by CSOs and related negative media coverage regarding individual investments in projects with adverse community impacts.¹² Examples include DFI investments in Addax Bioenergy, Agua Zarca, Buchanan Renewable Fuels, and CIFI Hydro Santa Cruz, all investments that left communities with significant unremediated impacts, triggering recommendations by accountability mechanisms and CSOs to remedy impacts and ensure future responsible exits.

Figure 1 summarizes the history of these investments. For IFC, the negative NGO assessment and media coverage of its investment in CIFI/HIDRO Santa Cruz, a hydroelectric dam project in Guatemala, and the communities' subsequent complaint to CAO, helped drive the current reassessment of exit strategies. CAO's compliance investigation, completed in 2019, found evidence that IFC was aware of residual impacts on communities but did not engage with its client to ensure that residual impacts of the project were assessed, reduced, mitigated, or

12. Some examples are Hydro Santa Cruz (<https://www.cao-ombudsman.org/cases/guatemala-cifi-01-hidro-santa-cruz>), Agua Zarca (<https://www.business-humanrights.org/en/latest-news/fmo-and-finnfund-finalize-exit-agua-zarca/>), and Addax BioEnergy (<https://www.business-humanrights.org/en/latest-news/press-release-new-report-finds-swedfund-and-fmo-failed-to-respect-human-rights-when-they-exited-a-bioenergy-project/>). See also the case of proposed exit of Telenor from Myanmar: <https://www.responsible-investor.com/investors-in-collaborative-engagement-with-call-centre-firm-teleperformance-amid-ncp-complaint/>.

compensated for, as appropriate, including at project closure, as required by the Performance Standards and the Sustainability Policy.¹³ In response, IFC committed to review its policies and procedures as they relate to aspects of exiting an investment as well as to define its approach to responsible exit — an ongoing process to which this report aims to contribute.

Figure 1. Examples of investments from which exits were controversial

INVESTMENT	MEDIA/NGO COVERAGE	COMPLAINT	INVESTIGATIONS, INDEPENDENT REPORT	EXIT
Buchanan Renewables OPIC loans of \$200M+ in 2008 and 2010. Swedfund acquired 30% equity stake.	Buchanan Renewables AP reported on human rights and environmental issues in 2015.	Buchanan Renewables Complaint filed in the United States in 2014 for adverse impacts .		Buchanan Renewables Vattenfall and Swedfund divested in 2012.
CIFI/HIDRO Santa Cruz IFC IFC invested in CIFI in 2008.	HIDRO Santa Cruz In 2016, IFC's investment in CIFI received negative coverage by multiple sources: Oxfam, Recourse, Devex, and Business & Human Rights.	CIFI/HIDRO Santa Cruz IFC Protest and violent incidents broke out in 2012. CAO received a complaint in 2015 for lacking consultation with IP communities, violence , and repression .	2019 CAO compliance investigation found non-compliance and that IFC was aware of residual impacts but did not assess, reduce, mitigate, or compensate.	CIFI/HIDRO Santa Cruz IFC CIFI suspended disbursement in 2012 and terminated the loan to the project in 2015.
Addax Bio Energy Swedfund (8%) & FMO (Dutch Entrepreneurial Development Bank) (17%) took minority stake in 2011.	Addax Bio Energy . In 2017, Swedwatch issued report detailing human rights issues and FMO and Swedfund's alleged failures in exiting.	Addax Bio Energy 2015/16: Faced severe financial constraints & scale down. 2017: New operation started but issues on polluting drinking water , threats to human rights defender persisted.	2017 independent report highlighted that risk assessments and mitigation measures need to include an exit perspective .	Addax Bio Energy Swedfund sold its stake in 2016.
Agua Zarca FMO (2014) & Deutsche Bank (2016) invested in Desarrollos Energético SA (DESA).	Agua Zarca Between 2016 and 2022, FMO's investment in Agua Zarca was negatively covered by BBC, Reuters, Bloomberg, The Guardian, and others.	Agua Zarca 2011: Violence in project area increased . 2016: Murder of protesting group leader; arrested assassin linked to project .	2016 independent fact-finding mission concluded that FMO's decision to withdraw created potential negative impacts . Recommended FMO to engage with the communities.	Agua Zarca FMO suspended disbursement in 2016 and exited in 2017.

13. See CAO Compliance Investigation Report, "IFC Investment in Corporación Interamericana para el Financiamiento de Infraestructura, S.A. (Project #26031)," Dec 2018. https://www.cao-ombudsman.org/sites/default/files/downloads/CAOInvestigationReportofIFCInvestmentsinCIFI_ENG_December2018.pdf



Another important driver is the growing expectation among member governments and civil society for DFI's to better align exit decisions with their sustainability commitments and policies as well as commonly accepted international standards. The latter include the UN Guiding Principles on Business and Human Rights,¹⁴ the OECD Guidelines for Multinational Enterprises,¹⁵ OECD's Responsible Business Conduct for Institutional Investors,¹⁶ and the Operating Principles for Impact Management, co-founded by IFC.¹⁷ Other drivers raised by interviewees include enhancing their DFI's perceived value proposition in the market, and addressing investment-specific concerns of member governments.¹⁸

In addition, the growing expectation that DFI's define a coherent approach to remediation of harm incurred in investment projects is spurring the parallel development of approaches toward responsible exit. However, while interviewees reported strong support for responsible exit approaches by personnel who manage environmental and social risks, some also noted internal counterpressures to focus on strong rates of return on investments, supported by entrenched institutional cultures and practices.

Banking institutions

The sustainable investing market has grown exponentially in the past 15 years, from 60 ESG (environmental, social, and governance) impact funds available to investors globally in 2006 to approximately 6,000 through 2021. In parallel, disclosures on ESG strategies and performance are becoming requirements for public funds as well as companies in some jurisdictions, including disclosure regarding negative impacts.¹⁹ Global financial companies and institutional investors are looking beyond current compliance requirements and working to standardize their ESG practices and reporting in line with industry good practice. The Task Force on Climate-related Financial Disclosures is one example of a voluntary disclosure framework that has seen strong uptake by companies in their ESG reporting, as well as use by asset allocators in their investment decisions.²⁰

Against this backdrop, banks view the development of responsible exit strategies as both risk mitigation and a differentiator in the market. Interviewees noted that banks are engaging with

14. See https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinessshr_en.pdf

15. See <https://www.oecd.org/corporate/mne/>

16. See <https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf>

17. Bill released a new policy in April 2022 on E&S and business integrity requirements. The policy draws on several international frameworks for its E&S requirements, including the OECD Guidelines on MNCs and the UNGPs, in addition to IFC's Performance Standards. Dutch agency FMO released a Human Rights Position Statement in 2017 making commitments to embedding human rights in accordance with the UNGPs Reporting Framework, and releases an Annual Human Rights Progress Report. FMO now details how human rights are integrated throughout its investment process. This commitment is present in FMO's Sustainability Policy and is complementary to application of the Performance Standards. The 137 Equator Principles Financial Institutions also commit to UNGPs aligned human rights protection through due diligence and mitigation, management, and remediation measures as stipulated in the Equator Principles (July 2020). EBRD's 2019 Sustainability Policy and IDB Invest's 2020 policy also include commitments to human rights, although neither mention the UNGPs specifically.

18. See, for example, the US government position, published in response to MICI's compliance review of IDB Invest's investment in the San Mateo and San Andres hydro projects, <https://home.treasury.gov/system/files/206/US-Position-MICI-Report-on-IDB-Invest-Guatemala-Generadora-projects.pdf>

19. The US Security and Exchange Commission's proposed amendments to investor disclosure requirements aim to prevent greenwashing through standardized, mandatory ESG disclosures. The EU's Sustainable Finance Disclosure Regulation(SFDR) goes further, requiring disclosures on Principle Adverse Impacts (PAIs).

20. In 2019, when the UNGPs' reporting framework database was last updated, 30 financial institutions globally had registered as users. The reporting framework asks adoptees to disclose publicly detailed responses to a series of questions about what strategies they use to identify, mitigate, and remedy human rights impacts, and how they measure success. ING, Banco Santander, Lloyds Banking Group, HSBC, Bank of China, ABN Amro, Societe Generale, JP Morgan, MasterCard, Mitsubishi Financial, and Goldman Sachs are among the adoptees. The TCFD secretariat reported that in 2020, 83 of the 100 largest companies globally were using the TCFD disclosure recommendations in their annual ESG reporting.

responsible exit both in anticipation of future requirements and because it is seen as a market differentiator. CAO's study also found that momentum for developing exit strategies has been influenced by high-profile media coverage and CSO complaints regarding controversial projects, which banks view as a material reputational risk. For example, Australian bank ANZ was the subject of a complaint to the OECD's Australian National Contact point regarding negative impacts from the development of a sugar plantation and refinery in Cambodia that received a loan from ANZ's wholly-owned subsidiary ANZ Royal. The NCP concluded that ANZ's due diligence processes did not align with its stated commitments and internal policy and procedures.²¹ ANZ suffered significant reputational damage due to its association with the project impacts and ultimately agreed to return profits from the loan to impacted local communities.

At the same time, commercial banks expressed that addressing E&S issues at the individual transaction level, including at exit, can increase the value of companies in the portfolio and the overall portfolio.²² While practices are still developing, there are a few examples of some good practices, most notably ING Bank's exit from its investment in the Dakota Access Pipeline (DAPL). The bank consulted with US indigenous stakeholders to inform its decision on whether or not to sell its DAPL loan and made public disclosures regarding its exit.²³

More broadly, adopting responsible exit policies and developing related practices can help banks demonstrate commitment to their own ESG goals.²⁴

Impact investors

For investors with an impact mandate, the key driver of a responsible exit approach is ensuring the continuing positive impact of their investment. Member surveys conducted by the Global Impact Investor Network (GIIN) found that only around 10 percent did not agree that impact investors have a responsibility to sustain the positive impacts they had identified and invested in. At the same time, impact investors regularly consider the potential risks of not exiting responsibly — such as mission drift and business failure — and how to mitigate them.

As their portfolios mature, impact investors have paid growing attention to exiting from investments in ways that contribute to sustaining the positive impacts of the investment. GIIN has developed guidance toward responsible exit drawn from existing practices and example investments successfully designed to maintain positive E&S impact. The approaches and practices recommended consider exit throughout an investment's life cycle, from pre-investment to exit.

21. The NCP found that the policy appeared to be aligned with the OECD Guidelines. See <https://www.business-humanrights.org/en/latest-news/australian-ncp-concludes-anzs-action-not-in-line-with-the-companys-human-rights-policy-in-phnom-penh-sugar-case-company-responds/>

22. See "How ESG Issues Become Financially Material to Corporations and Their Investors," Harvard Business School Working Paper (revised No 2020), <https://www.hbs.edu/faculty/Pages/item.aspx?num=57161>

23. See ING (2017), "ING Has Sold its Stake in Dakota Access Pipeline Loan," <https://www.ing.com/Newsroom/News/ING-has-sold-its-stake-in-Dakota-Access-pipeline-loan.htm>.

24. The Australian financial institution WestPac, for example, has a disclosure on its approach to deciding whether to exit: "Where we do not have confidence that a customer will meaningfully prevent adverse human rights impacts, or provide for or cooperate in remediation where they have caused or contributed to adverse impacts, we may look to exit our relationship with the customer (noting that this approach must operate in conjunction with other obligations, such as our legal agreements and compliance with the Banking Code of Practice, if applicable)." See <https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/sustainability/WBC-human-rights-position-statement.pdf>.

BOX 1

How civil society organizations inform responsible exit

Civil society organizations (CSOs) have played a key role in driving financial institutions to focus more closely and effectively on how they exit from investments. In addition, CSOs often generate media attention on high profile exits that then act as an additional driver for investor action.^a In countries such as China and Myanmar, for example, CSOs have raised pertinent questions about the responsibility of investors when divesting from projects with significant E&S issues, or about circumstances when exit could exacerbate — or even create — such issues.^b In addition, CSO reporting and thought leadership has focused on the link between responsible exit and the right for people who have suffered adverse project-related impacts to receive remedy (see also Appendix B).^c

Influential CSO reports calling attention to cases of exit that lead to harm, or which investors executed despite unremediated harms, include the following:

- In 2011, Dutch NGO SOMO (the Centre for Research on Multinational Operations) and Liberian NGO Green Advocates published a report describing impacts from a Buchanan Renewables Fuels (BRF) biofuels development in Liberia, including inadequate compensation for tree removal, property damage, and loss of livelihoods. BRF then engaged in constructive dialogue with impacted stakeholders, including rubber farmers and charcoal producers. However, these outreach efforts ended when minority shareholders Vattenfall and Swedfund divested in 2012, and BRF repaid its loan to OPIC a year later, laying off 600 workers. A 2013 follow-up report by Swedwatch emphasized the importance of exiting responsibly and conducting human rights due diligence prior to divestment.



- In 2016, SOMO published *Should I Stay or Should I Go?*, which questioned the termination of business relationships when human rights issues remain present.^d
- Also in 2016, Bread for the World published a report on the harm caused when DFIs exit without accounting for the negative impacts of their investments on people, focused on the Addax Bioenergy ethanol refinery and biomass plant in Sierra Leone. It concluded: “The weakest actors in the project venture, the communities in whose name the project was co-financed, were ill-informed, unprepared for the discontinuation of operations and left in difficult livelihood situations.”^e

“The weakest actors in the project venture, the communities in whose name the project was co-financed, were ill-informed, unprepared for the discontinuation of operations and left in difficult livelihood situations”

— Bread for the World, 2016, *The Weakest Should Not Bear the Risk*

- In 2017, Swedwatch described divestment from Addax Bioenergy by the Swedish and Dutch DFIs Swedfund and FMO as an “[ir]responsible exit.” Titled *No Business, No Rights: Human Rights Impacts When Land Investments Fail to Include Responsible Exit Strategies*,^f the report is cited in the business and human rights field as a landmark publication on the concept of responsible exit.

- See, for example, reporting by international media (Associated Press: <https://apnews.com/article/52cad7bc134d4057a76b6a8cf2263c1a>) and NGOs (Accountability Counsel catalogues, <https://www.accountabilitycounsel.org/client-case/liberia-buchanan-renewable-energy/#media>).
- See, for example, <https://www.bloomberg.com/news/articles/2022-04-17/global-investors-flee-china-fearing-that-risks-eclipse-rewards>. Major investors in TotalEnergy and Chevron were engaged in the decision to exit from Myanmar and have since also encouraged these and other portfolio companies to develop an approach to identifying and managing risks in situations where human rights challenges may be particularly salient. See <https://www.responsible-investor.com/total-and-chevron-to-face-investor-questions-on-human-rights-approach-in-conflict-affected-and-high-risk-areas-following-myanmar-exit/>
- See, for example, Bank Information Center and CIEL, “Does Divestment by Multilateral Development Banks Leave Communities in the Lurch?” (blog), March 2022, <https://www.ciel.org/does-divestment-by-multilateral-development-banks-leave-communities-in-the-lurch/>
- See *Should I Stay or Should I Go? Exploring the Role of Disengagement in Human Rights Due Diligence*, SOMO, April 2016, <https://www.somo.nl/should-i-stay-or-should-i-go-2>
- See 2016 study by Bread for the World: “The Weakest Should Not Bear the Risk:” *Holding the Development Finance Institutions Responsible When Private Sector Projects Fail. The Case of Addax Bioethanol in Sierra Leone*. <https://www.ohchr.org/sites/default/files/Documents/Issues/Business/2019Survey/OtherStakeholders/BreadfortheWorld2.pdf> and <https://www.eaif.com/project/addax-bioenergy-powering-up-sierra-leone>
- <https://swedwatch.org/wp-content/uploads/2017/11/No-Business-No-Rights-final.pdf>

Sources: Extracted from *Human Rights Impacts of the Exit of Swedish Investors from Buchanan Renewables Fuel in Liberia: An Update* (Swedwatch 2018) and *Fueling Human Rights Disasters, an Examination of the US Overseas Private Investment Corporation’s Investment in Buchanan Renewables*, Accountability Counsel and Green Advocates, 2014, <https://www.accountabilitycounsel.org/wp-content/uploads/2017/08/Fueling-Human-Rights-Disasters-smaller-file.pdf>

What guidance, frameworks, and standards are informing responsible exit?

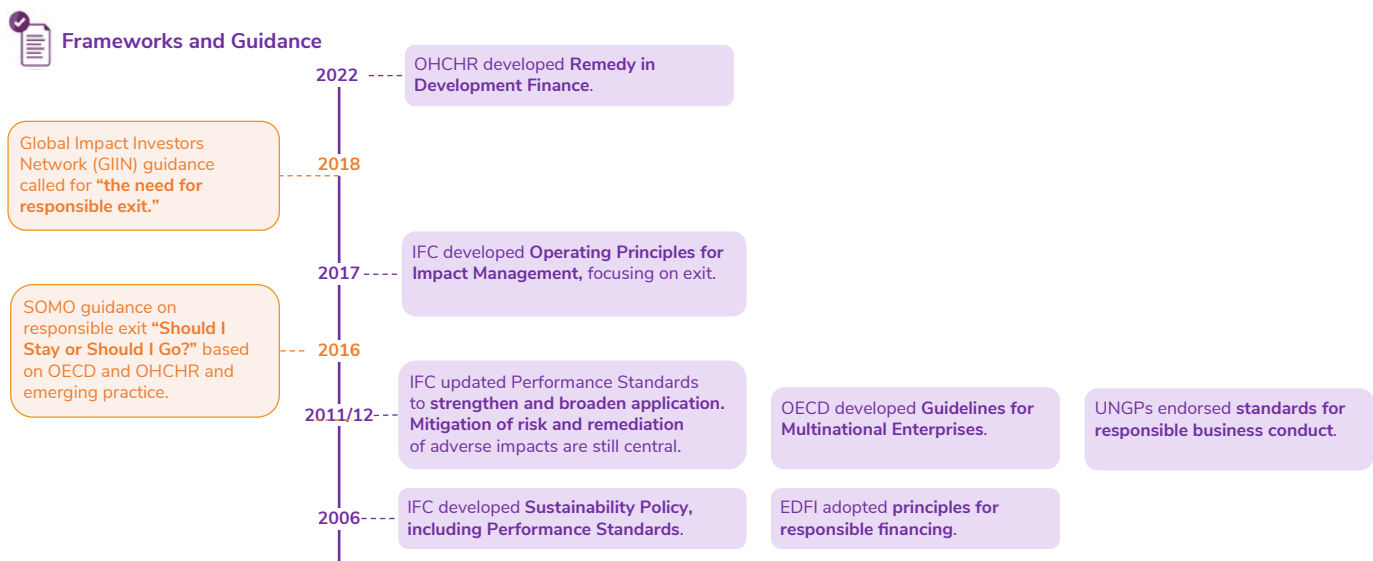
Participants in CAO's study noted that in developing their own approaches, they referred to several international frameworks that provide the basis for commitments to exiting responsibly from an investment (see Figure 2 on next page). This section provides an overview of relevant aspects of these voluntary frameworks and standards. In addition, DFI participants have built on their own environmental and social policies, many of which already provide expectations to "do no harm," conduct effective project due diligence, and enable the sustainability of positive impacts from their investments.

"If a financial institution notices ... that it invests in a company that breaches human rights or other principles of the OECD Guidelines, simply selling the shares of that company is not the best solution... Very often engagement with the company is the best way forward to try to change its behaviour."

—Professor Roel Nieuwenkamp, Chair of the OECD Working Party on Responsible Business Conduct²⁵

25. Cut and Run, or Stay and Help?, March 2014. <https://www.reutersevents.com/sustainability/supply-chains/cut-and-run-or-stay-and-help>

Figure 2. Snapshot of relevant frameworks and guidance



United Nations Guiding Principles on Business and Human Rights

Many study participants of all investor types highlighted the UN Guiding Principles on Business and Human Rights (UNGPs), adopted in 2011, as most important to their efforts to develop responsible exit strategies.²⁶ The UNGPs require businesses to avoid infringing on human rights and to address any adverse human rights impacts with which they are involved. These standards also refer to the responsibility to ensure remedy for adverse impacts — a related issue to responsible exit that investors in development projects are also grappling with. In 2019, when the UNGPs' reporting framework database was last updated, 30 financial institutions globally had registered as users. These soft law standards have been cited as informing and catalyzing various existing and proposed regulation, including on modern slavery, supply chain due diligence, and mandatory human rights due diligence.

The OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises (last updated in 2011) are non-binding principles and standards for responsible business conduct, supported by member governments and fully aligned with the UNGPs. These guidelines lay out responsible business expectations, including that companies avoid causing or contributing to adverse impacts and seek to prevent or mitigate adverse

26. UN Guiding Principles on Business and Human Rights, Implementing the United Nations' Protect Respect and Remedy Framework (2011), https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinessshr_en.pdf. See, for example, UK BII's Policy on Responsible Investing, which notes that it is aligned with international best practices, including the UNGPs.

social, environmental, labor, or human rights impacts directly linked to their products, operations, or services.²⁷ To achieve this, businesses are encouraged to carry out due diligence for adverse impacts in their own operations and throughout their business relationships. A companion paper to the guidelines, released in 2017, addresses the role of investors in responsible business conduct, with an emphasis on due diligence, prevention, and mitigation by investors.²⁸

The CAO study participants noted that cases related to responsible disengagement²⁹ brought to the OECD Guidelines' complaints mechanism (the National Contact Points) have also proved valuable in developing their own approaches. As noted, recommendations made by the Australian NCP concerning ANZ Bank's financing of Phnom Penh Sugar Ltd., for example, resulted in ANZ returning the profits from that loan to the impacted people.

The Operating Principles for Impact Management

The nine Operating Principles for Impact Management (Operating Principles), launched in 2019,³⁰ draw from emerging best practices among asset managers, owners, allocators, and development finance institutions. IFC co-founded the Operating Principles with a group of investment institutions including DFIs, banks, and investment funds, and currently hosts the group's secretariat. The Operating Principles provide a "framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle." As part of their commitment to and leadership on these principles, signatories are required to consider the effects that the timing, structure, and process of exiting from projects will have on the sustainability of project impact.³¹ IFC helped develop the principles by building on its 2006 Sustainability Policy and Performance Standards, which were updated in 2012.

UN human rights guidance on exit and remedy in development finance

More recently, in February 2022, the UN Office of the High Commissioner for Human Rights (OHCHR) released guidance on development finance exits and remedy for harms incurred by financiers. Building on the UNGPs (and unlike other frameworks), its guidance specifically states that in situations of significant E&S risks, or where harm has already occurred, investors should exit only after attempts to use leverage to mitigate and remediate the negative impacts and/

27. OECD Guidelines for Multilateral Enterprises (2011). "Responsible Business Conduct, The New Normal for a Sustainable Future." <https://mneguidelines.oecd.org/mneguidelines/>.

28. OECD (2017). Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises.

29. Other examples cited include two investments in Myanmar by Telenor and Myanmar Metals, an Australian mine developer.

30. <https://www.impactprinciples.org/>.

31. Principle 7 notes that "When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact." See <https://www.impactprinciples.org/9-principles>.

or to improve environmental and social outcomes have been exhausted.³² Other key OHCHR messages for investors are that exiting responsibly is part of commitments and intent to “do no harm,” and that responsible exit involves planning from early in the investment cycle. Specifically, the guidance calls for more explicit and early attention to strong due diligence, building leverage, and planning for remedy as an integral, ordinary component of project design.³³ In addition, it offers specifics on how to prepare for exit early on in the investment cycle. Examples including enhancing loan agreements, thinking creatively about leverage throughout the investment cycle (including after exit), and creating a responsible exit plan to assess and address impacts.

Guidance for impact investors on responsible exit

The Global Impact Investing Network (GIIN) provides guidance on responsible exits for its 360 members, comprising global asset owners, asset managers, and service providers. Its 2018 report draws on good practice approaches and specific investments where these practices have been used successfully.³⁴ GIIN's guidance provides an overview of the different stages of planning and executing a responsible exit, starting with planning at the beginning of the investment life cycle. It also offers effective examples of how to use leverage with investees to support a responsible exit and to engage post-exit.

Additional principles and practices targeting DFIs and MFIs

In 2014, the Consultative Group to Assist the Poor (CGAP), a World Bank Trustee, and the nonprofit Accion³⁵ published a paper on responsible exits by microfinance institutions (MFIs) and by DFIs that fund them. The paper considers how equity exits in particular can contribute to an investor's responsible finance and responsible market development aims. Highlighting lessons and emerging practices, the paper highlights four areas that investors could apply to responsible exits: (1) the timing of the equity sale; (2) buyer selection; (3) the governance and use of shareholder agreements to achieve social objectives; and (4) how to balance social and financial returns when selecting among bids.

32. Commentary to UNGPs Principle 1 states that exit should apply upon the exhaustion of leverage over an entity causing harm: “There are situations in which the enterprise lacks the leverage to prevent or mitigate adverse impacts and is unable to increase its leverage. Here, the enterprise should consider ending the relationship, taking into account credible assessments of potential adverse human rights impacts of doing so.”

33. OHCHR (2022b). “Remedy in Development Finance,” <https://www.ohchr.org/sites/default/files/2022-03/Remedy-in-Development.pdf>

34. GIIN (2018). *Lasting Impact: The Need For Responsible Exits: GIIN Issues Brief*, https://thegiin.org/assets/GIIN_Responsible%20Exits_2018.pdf

35. Rozas, Daniel. 2014. “The Art of the Responsible Exit in Microfinance Equity Sales.” Forum 9. Washington, D.C.: CGAP and Center for Financial Inclusion. CGAP's membership includes more than 30 development-oriented organizations. Accion is a nonprofit lender, focused on microfinance and fintech impact investing.

Emerging core principles on responsible exit

The frameworks presented here have differences in emphasis but share important similarities that reflect an emerging set of core principles around responsible exit. These include:

- ▶ Exits from investments matter to investors' E&S performance because their actions and approaches can contribute to mitigating or exacerbating E&S risks;
- ▶ Investor exit should “do no harm” in line with the existing commitments and intent of many financial institutions;
- ▶ Exits should be conducted in a way that sustains positive benefits beyond the life of the investment;
- ▶ Mitigating existing or potential risk and (in the OHCHR and OECD guidance) enabling or providing remedy for any project-related harms is integral to an approach to responsible exit; and
- ▶ Utilizing effective due diligence and investor leverage to enable influence over and support for investees is emphasized across all the frameworks.

While reporting that existing frameworks provided useful guidance, participants in this study agreed on the need to develop approaches to responsible exit that are specific to their own mandates and operational realities, including capacity constraints and potential liability, among others. At the same time, they emphasized the value of sharing practices that have been tried and tested so that each investor can learn from others' experiences. Many expressed the desire to have guidance from IFC, or from the secretariat of the Operating Principles for Impact Management. OHCHR's 2022 guidance echoes this sentiment, noting “a pressing need [for DFIs to] build the knowledge base on the environmental and social impacts of various exiting scenarios and to develop better policies and tools to address exit risks and consequences.”³⁶

IFC's existing guidance on responsible exit

As discussed earlier, DFI study participants noted that they draw on their own policies to underpin and inform development of their approaches. For example, IFC's Sustainability Policy³⁷ already sets out the following commitments:

- ▶ The intent to “do no harm” to people and the environment.
- ▶ The intent to enhance the sustainability of private sector operations and achieving social and environmental sustainability of activities financed.

36. OHCHR (2022b). “Remedy in Development Finance: Guidance and Practice,” <https://www.ohchr.org/sites/default/files/2022-03/Remedy-in-Development.pdf>

37. International Finance Corporation's Policy on Environmental and Social Sustainability (January 1, 2012), https://www.ifc.org/wps/wcm/connect/7141585d-c6fa-490b-a812-2ba87245115b/SP_English_2012.pdf?MOD=AJPERES&CVID=kilrw0g.



- ▶ A commitment that development costs do not fall disproportionately on the poor and vulnerable, to avoid environmental degradation, and to promote sustainable natural resource management.
- ▶ The requirement of clients under IFC's Performance Standards to apply a mitigation hierarchy to anticipate and avoid adverse impacts on workers, communities, and the environment, or where avoidance is not possible, to minimize, and where residual impacts remain, compensate for/offset the risks and impacts, as appropriate.
- ▶ The belief that the client's regular engagement with stakeholders about matters that directly affect them plays an important role in minimizing risks and impacts to people and the environment.

IFC and other institutions using the IFC Performance Standards already aim to operationalize these commitments, in particular *during due diligence at the start of the investment cycle*. However, participants noted a growing realization among DFIs that the start of the investment cycle is not the only point at which due diligence tools should be employed to identify and manage risks. OHCHR's 2022 guidance also raised this concern, citing "an imbalance" in the efforts applied by DFIs at the start of the investment cycle compared with efforts at exit.³⁸

38. OHCHR (2022b). "Remedy in Development Finance."

How is responsible exit interpreted and how can it be achieved?

State of investor activity on responsible exit

While all participants in the interviews for this study were engaged in the development of responsible exit approaches, investor participants varied in how far along they were in developing policies, processes, and practices. Different types of investors also employed different strategies based on their mandates and other institutional factors.

The Global Impact Investor Network noted that many of its members employ a combination of different practices, depending on their individual investment strategy, theory of change, and role in the investment value chain. These practices can vary from investment to investment within a single portfolio based on factors such as the investor's share in the company's ownership structure, and where in the project life cycle the investment was made and the proposed exit will take place.

Among DFIs and banks, several have divested from investments in high-profile projects that were experiencing significant environmental and social challenges, using some elements of responsible exit, as noted in Table 2. A sample of these cases is summarized in Table 4, and more are described in Appendix A.

Table 4. Examples of investments that included elements of a responsible exit

DAKOTA ACCESS PIPELINE	AGUA ZARCA HYDROELECTRIC	CAMBODIA SUGAR MILLS	SAN MATEO & SAN ANDRES
ING	FMO	ANZ	IDB Invest
ING Bank considered continued engagement or exit from DAPL following violence against protestors over permits issued on indigenous land. Initially, ING attempted to exert influence on the project. ING consulted with the Standing Rock Sioux tribe and decided to sell the loan with the full support of the Tribe. ING divested in March 2017.	Following an escalation in violence related to a hydroelectric project and the murder of a human rights defender in 2016, an independent fact-finding mission concluded that FMO's decision to withdraw created potential negative impacts. A plan was drafted in 2017 in consultation with affected communities, with actions to address the significant impacts of the project.	A first-of-its-kind agreement by a commercial bank, in 2020 ANZ returned profits to 1000 forcibly displaced farmers following adverse impacts of a 2011 loan to a sugar mill project. Compensation and stakeholder consultation set landmarks.	IDB invested in the San Mateo and San Adres hydropower projects in 2018. A responsible exit was planned in 2021 in consultation with affected communities, as a result of a complaint and compliance investigation findings for the IDB San Andres and San Mateo hydro projects.

These examples illustrate the way in which DFIs and banks are working to improve the way they exit from problematic investments. In each case, the investor pursued one or more practices that could contribute to a responsible exit. These included using available leverage, consulting project-affected people, making an exit plan, remedying harm, and reviewing an exit for the purpose of learning lessons

None of the DFIs or banks involved in the CAO study utilized a comprehensive approach that prepared for, planned, and executed a responsible exit as part of ordinary investment design. However, while few investors have articulated and/or disclosed to date their organization's approach to exiting investments responsibly, our study revealed that DFIs, banks, and impact investors are all moving forward with thinking, policies, and practice,³⁹ and a majority of participants expressed that responsible exit is applicable to a broad range of investor products.⁴⁰ Table 5 summarizes the results of our interviews and surveys on the investment products they consider relevant to responsible exit and the stage of development they have reached in applying a responsible exit approach.

39. The 2018 report by the Global Impact Investing Network (GIIN), *Lasting Impact: The Need for Responsible Exits*, describes a variety of approaches taken by investors to select, manage, and exit their investments responsibly. GIIN interviewed 30 of its network members regarding their current practices in order to inform the report. https://thegiin.org/assets/GIIN_Responsible%20Exits_2018.pdf.

40. The Equator Principles was referred to by one participant in the survey response as providing guidance on the scope of application of E&S-related requirements. The Equator Principles are applicable to project finance advisory services, project finance, bridge loans (or other short-term loans that link to project finance or project-related corporate finance), project-related refinance, and project-related acquisition finance.

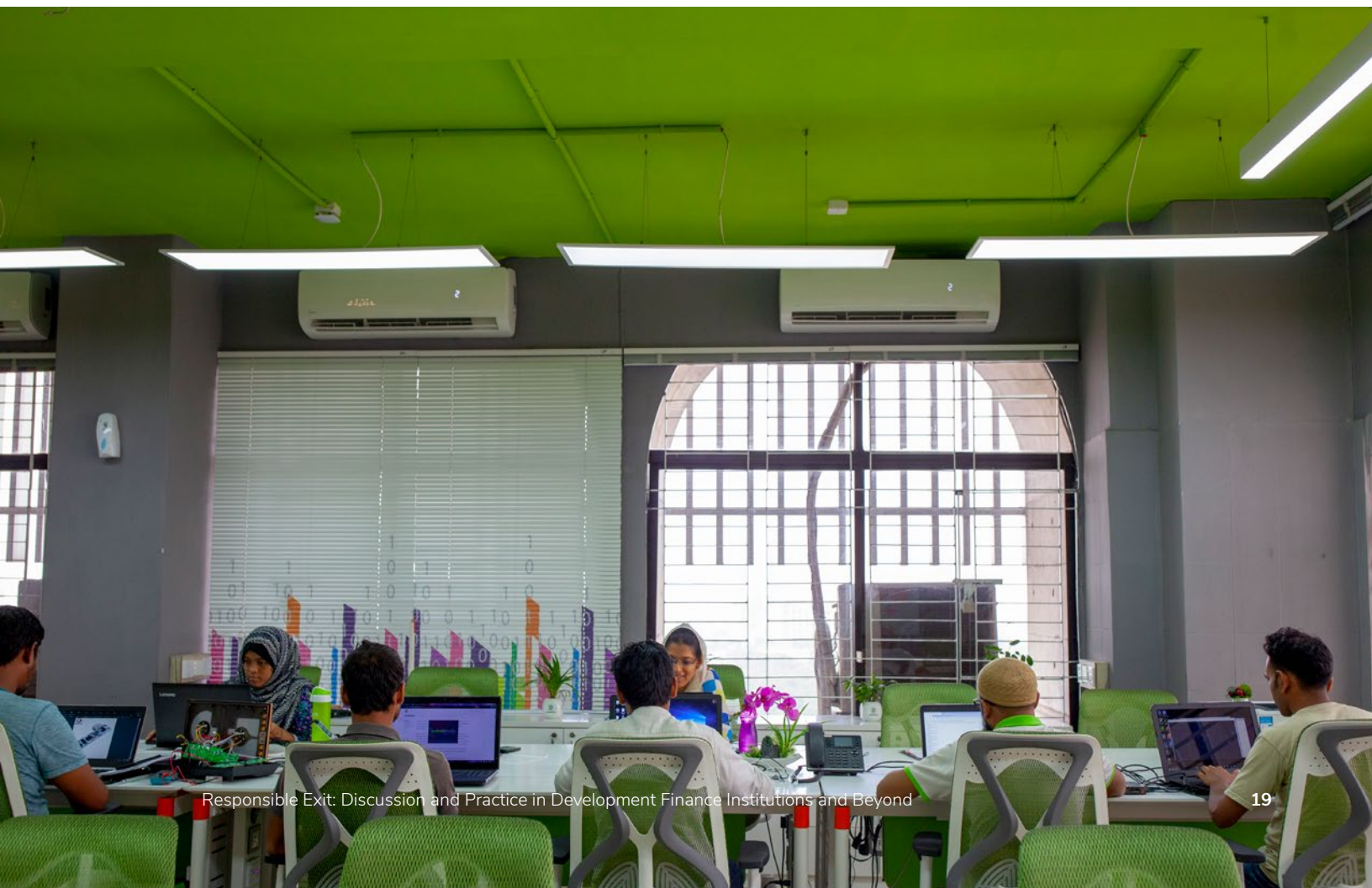


Table 5. Summary of responsible exit scope of application and state of current practice by DFIs, banks, and private impact investors

ORGANIZATION TYPE	RELEVANT INVESTMENT PRODUCTS	CURRENT STATE OF PRACTICE
DFIs	• Prioritization of incorporating responsible exit practices into unplanned exits from equity investments (for E&S or other reasons). • DFIs interviewed noted that they expect to expand such practices to planned exits in such areas as trade finance, loan guarantees, and corporate and project loans.	• All DFIs interviewed reported that they have moved beyond the early stages of thinking through responsible exit approaches, and most reported that they are developing practices. One reported to be institutionalizing practice. • Some DFIs have made public disclosures regarding approaches or practices. • A small number of disclosures related to the application of responsible exit approaches to specific investments/ projects.
Banks	• Viewed as applicable to all investments.^a	• Banks interviewed reported they were piloting practices. • Strong disclosure on specific cases (such as DAPL) has set an expectation for improved practice. • No public disclosures reviewed by the study had institutionalized commitments to approaches/practice on executing exit. However, some banks have communicated their approach on deciding to exit.
Private impact investors	• All investments— because a responsible exit is seen as integral to investment models for long-term E&S impact.	• Strengthening implementation. • Have already published guidance (GINN 2018).

a. Interviews with bank participants were with lending departments only.

Lessons from other sectors

Study participants also highlighted that learning from real sectors is valuable in developing their approaches to exiting responsibly from investments.

The mining industry is an important example, having long-established approaches to impact management throughout an operation's often complex project cycle. For example, it is standard practice for any new mining project to include an exit strategy that addresses social and environmental risks. Mining companies view planning for a responsible exit as reducing liability for both the operator and investors, as well as bringing risk identification and mitigation benefits.⁴¹ Investors in mining have been a key driver of this approach, and themselves use responsible exit approaches from such operations, including selling only to buyers who commit to the same

41. See International Council on Mining and Metals, *Integrated Mine Closure: Good Practice Guide* (2nd edition), 2019, <https://www.icmm.com/en-gb/guidance/environmental-stewardship/2019/integrated-mine-closure>.

sustainability standards. Recently, the mining and minerals sector has focused on how to achieve accelerated but responsible exits from coal and other fossil fuel mining operations (see Box 2).⁴²

BOX 2

Responsible exits in mining

The International Council of Mining and Metals (ICMM) offers guidance in planning for mine closure in a way that incorporates environmental, social, and economic aspects at an early stage of site development. The approach — known as integrated mine closure — recognizes that mineral resources are finite and closure should therefore be a part of any mine's core business. Planning closure effectively helps to engage transparently with stakeholders and incorporate them in the closure process, while companies benefit from more accurate cost estimates and the opportunity to identify risks and mitigation strategies early on.

ICMM recommends that operators start planning for closure before site activity begins, implement the closure plan throughout the mine's operational life, define ways the land can be used afterward, and develop quantitative closure success criteria. Its guidance handbook includes specific elements that could assist DFIs and other investors in thinking about responsible exit practices. These include transitioning a community toward closure, defining a closure execution plan, monitoring after closure to ensure agreed objectives have been met, and planning for how temporary or sudden closure might affect each stage of the mine.

Source: ICMM, *Integrated Mine Closure, Good Practice Guide*, 2nd edition, 2019.

Other sectors are also progressively implementing a version of “responsible exit” in the way they manage supplier relationships, including the global apparel and textiles industry and agribusiness. For both sectors, this trend has been driven by a global spotlight on environmentally and socially harmful incidents and outcomes. For the apparel retail sector, implementation of responsible business standards, such as International Labour Organization (ILO) codes of practice and the UNGPs, has been a major focus for the past decade, following the death of more than 1,100 workers in a garment factory in Bangladesh.⁴³ Some companies with supplier factories in Bangladesh responded by terminating these relationships, at least in part driven by high reputational risk. This drew criticism from some stakeholders who argued that, rather than simply exiting, a more responsible course would have been to continue the relationship and engage with suppliers on managing risks and improving working conditions, among other E&S issues. Other multinational companies did choose to engage closely with their suppliers through audits and support for improved health, safety, and labor practices,

42. See, for example, “BHP Abandons Thermal Coal Exit as Investors and Prices Shift,” Bloomberg, June 2022, <https://www.bloomberg.com/news/articles/2022-06-16/bhp-scraps-exit-from-thermal-coal-as-investors-and-prices-shift#xj4y7vzkg>. For a summary, see Wharton Knowledge, “Why Investor Engagement with ‘Dirty’ Companies Is Better Than Divestment,” November 2021, <https://knowledge.wharton.upenn.edu/article/engagement-better-than-divestment-for-dirty-companies/>.

43. Rana Plaza was an eight-story commercial building on the outskirts of Dhaka, Bangladesh, where five garment factories made clothes for major brands across the world including Denmark, Germany, Italy, Spain, the United Kingdom, and the United States. In April 2013, the building collapsed, killing 1,132 people and maiming more than 2,500 others.

as well as take part in the Bangladesh Accord.⁴⁴ Widespread media coverage and NGO criticism also helped to bring about an “inflection point for monitoring and auditing supply chains.”⁴⁵ As a result, many companies developed strategies and practices that aim to improve E&S risk in supply chains by engaging with suppliers rather than simply terminating contracts when issues are identified. An interviewed apparel company now has buyers follow a decision tree to assist in deciding whether or not to disengage from suppliers. The decision tree considers whether the issues of concern are linked to them (the buying company) through their practices or because of price increases stemming from supplier efforts to meet buyer sustainability requirements, for example. These approaches align with the international standards noted above, which position disengagement as the preferred course of action when there is no (longer) any influence to improve the situation.

Similarly, many decades of adverse coverage by conservation and labor CSOs have drawn attention to adverse impacts such as deforestation, soil erosion, loss of biodiversity, forced labor, unsafe working conditions and practices, and — most recently — climate change impacts in agribusiness. Such sectors such as palm oil and soybean production have developed detailed guidance and standards for investments and exits to mitigate the many E&S risks their operations and supply chains can generate.⁴⁶ These efforts, combined with shareholder resolutions and other forms of engagement by investors in major corporations,⁴⁷ have spurred companies to commit to sustainable supply chain practices and reporting.

Divestment from poor performers still happens in these sectors, but takes place with due consideration of the impacts and leverage available.⁴⁸ The overall goal of many investors is to sustain value creation and preservation in the companies they own. These sectors have illustrated that supporting companies (whether suppliers or investees) in improved E&S performance is an endeavor that requires efforts implemented over time and that uses various tools in those efforts.

Identifying investment instruments for responsible exit

As DFIs, banks, and impact investors develop their responsible exit strategies, deciding which financial products should be applicable, and the type of exit itself, is a key part of the equation.

DFI study participants noted that even within different investment products, there can be different kinds of exits. Across investor types, they reported that it was easiest to apply responsible exit to “active exits.” These take place in situations that involve no preagreed term or maturity date for the investment and where the investor makes the decision when to divest.

44. The Accord on Fire and Building Safety in Bangladesh (signed on April 24, 2013) is a five-year independent, legally binding Global Framework Agreement between global brands, retailers, and trade unions designed to build a safe and healthy Bangladeshi Ready Made Garment Industry.

45. “Bangladesh Factory Collapse: Can Gap and Others Pin Down Worker Safety?” September 10, 2013. <https://www.theguardian.com/sustainable-business/rana-plaza-gap-worker-safety>

46. The Roundtable on Sustainable Palm Oil (RSPO), for example, is an international group of palm oil producers, palm oil buyers, and environmental and social groups committed to sustainable palm oil production. RSPO provides guidance, advisory services, and certification for sustainable palm oil.

47. See <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/climate-resolutions-top-unprecedented-number-of-shareholder-proposals-in-2022-69641049>

48. The Norwegian Pension Fund Global (GPF), for example, divested from 23 companies in the palm oil industry in 2013, following a review of its portfolio. At the same time, it increased its holdings in other palm oil producers that had demonstrated commitment to sustainable practices. Deutsche Bank, Citigroup, and Standard Chartered have also cancelled loans and divested from companies in the palm oil sector that were experiencing continued human rights and environmental impacts in their supply chains. <https://www.reuters.com/article/us-norway-pension-palmoil/norways-wealth-fund-ditches-33-palm-oil-firms-over-deforestation-idUSKCN1QH1MR>, <https://www.ran.org/the-understory/citi-divests-from-indofood/>

Divestiture from private equity investments is the most common form of “active exit.” Other investment vehicles used by DFIs and other financial institutions are “passive exit,” where the investment ends either on a preagreed date or when a condition has been met. Project or corporate loans and trade finance are common investment that have a “passive exit.”

Table 6 summarizes common investment products identified as applicable to responsible exit in a CAO survey of the financial actor participants in the landscape study.

All the organizations interviewed for this study agreed that responsible exit approaches are applicable to a wide range of investment instruments or products. Our findings also showed that investments with passive exits can sometimes present scenarios where investors consider an “unplanned” or “early” exit. Such circumstances include when the investor needs to protect its capital or reputation, or when the business operation for which the investment was made is not going ahead.

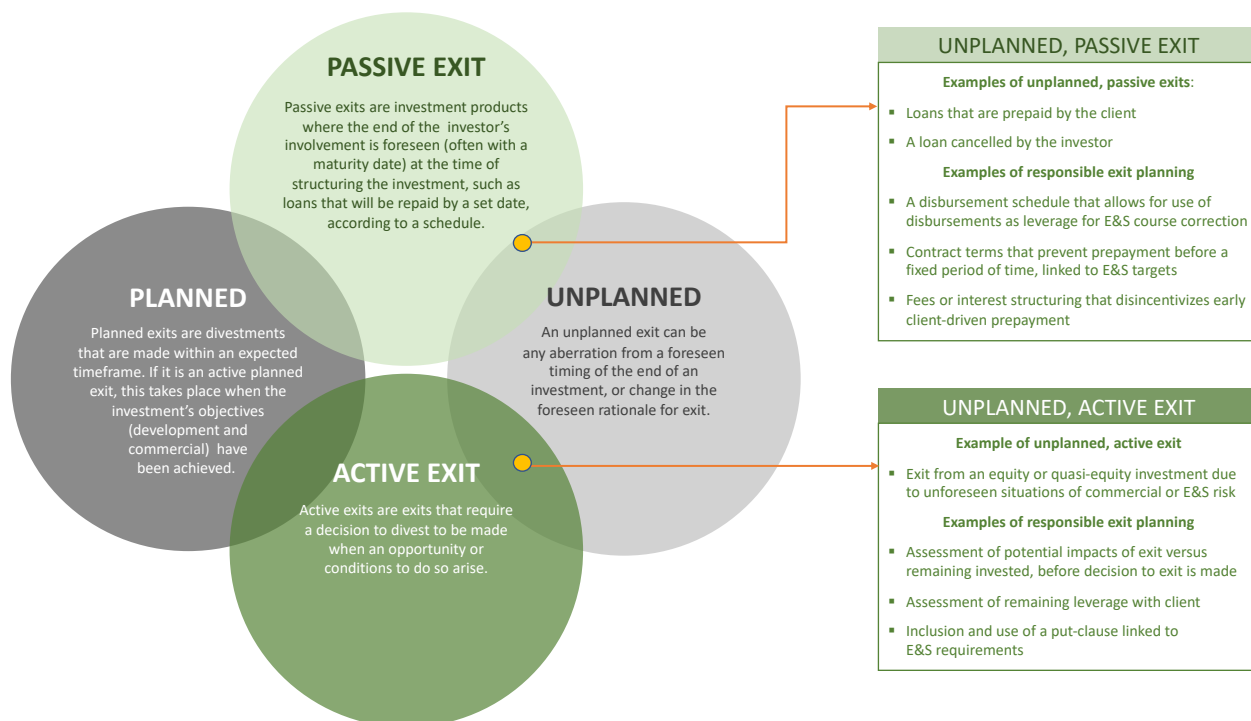
Table 6. Investment products to which responsible exit approaches apply (findings of CAO survey)

PRODUCT
Corporate loans
Project loans
Equity
Loan guarantees
Trade finance

Although it has been investments where harm has already occurred that have spurred investors to develop and pilot approaches to responsible exit, almost all the financial actor interviewees stated that they plan to apply such approaches to all the investment products they use. There was also a general consensus that, for all investments, investors can take some measures from an early stage to increase the likelihood of an exit being responsible. This included situations where the decision of whether or not to exit was not in the investor’s hands, such as a passive exit or an early exit triggered by the investee company.

Figure 3 further describes the different types of exit products and how they relate to responsible exit planning by DFIs and other investors. The next section details the types of practices and processes investors are developing and piloting to exit responsibly from such investment products.

Figure 3. Types of exits and relevant products used by DFIs and other investors



What responsible exit practices are stakeholders developing and institutionalizing?

Components of responsible exit in the investment cycle

As described in the previous sections, investment institutions apply a range of principles and emphases in the way they approach responsible exit, which broadly align with the guidance of relevant standard-setters. In terms of timing and action, approaches taken by participants in the CAO study can be grouped into three distinct stages: (1) preparing for exit; (2) deciding to exit; and (3) designing and executing exit.

This section draws on the study's findings to describe these three stages of responsible exit planning, process, and execution. Table 7 shows the current state of practice adopted by investor participants in a CAO survey conducted as part of the study.

Table 7. The state of practice: Responsible exit practices highlighted by survey participants

	PRACTICES BEING USED OR TRIALED AT TIME OF SURVEY (2021)	PRACTICE CONSIDERED BY RESPONDENTS AS RELEVANT TO RESPONSIBLE EXIT
Common	Pre-exit E&S risk and impact assessment	Yes
	E&S-focused exit memorandum	Yes
	Enhanced stakeholder engagement at exit	Yes
	Pre-exit human rights assessment	Yes
Less common	Leverage assessments	Yes
	Amended contractual terms	Yes
	Enhanced client due diligence	Yes
	Buyer due diligence	Yes
Not yet	More regular supervision/field assessments	Yes
	Co-financer due diligence	Yes
	Post-exit assessments	Yes

Stage 1. Preparing for exit

There is broad consensus that preparation for responsible exit, whether planned or unplanned, should begin at the due diligence phase for the client and/or project and continue through supervision of the investment. Multiple actors in our study stated that they are exploring the following five elements in the early stages of an investment, to increase the likelihood of being able to exit responsibly.

- ▶ **Understanding the client's or project's potential adverse impacts.** Investor interviewees noted that they seek to achieve a clear and early understanding of the most severe potential adverse impacts associated with a client relationship or project. This can help focus resources on finding information necessary to manage E&S risks and related business risks, and to ensure that the institution is not blindsided by foreseeable issues or left scrambling for information when adverse impacts arise.
- ▶ **Understanding client capacity and commitment.** Interviewees also noted that they seek to gain a robust understanding of a prospective client's capacity and commitment to manage E&S risks and address potential adverse impacts. Capacity issues include staff expertise and the robustness of relevant systems and processes within the investee organizations. The commitment of investee firms to managing E&S issues is evident in areas such as governance structures, policy, and procedures, formal incentives for staff, and organizational culture.⁴⁹ Client capacity and commitment assessments help DFIs and other investors ascertain whether a client has the willingness and ability to address E&S issues. This information may also provide clarity on whether and what kinds of investor leverage may be effective (see Box 3), and what forms of support, such as capacity building or Board-level guidance, would help a client improve E&S risk management.
- ▶ **Assessing and building leverage.** Leverage, or the different ways in which an investor can influence an investee, is considered a key element of preparing for exit by both standard-setters and study participants. An initial assessment of leverage can help an institution determine whether it will likely be able to influence the client in the event of an adverse impact.⁵⁰ When little leverage exists, the assessment can also identify actions and opportunities that could help the investor build more leverage. Examples of this being considered and trialed by study participants include strategic decisions on the duration of the contract, explicit leverage plans with clients, and incorporation into contracts of disengagement terms and escalation steps, such as delaying a disbursement, that allow incremental disengagement. Such steps can be taken alongside continued mitigation efforts as well as financial incentives for good E&S performance. Investors can also consider imposing penalty fees for early repayment and equity buy-back clauses.
- ▶ **Building internal capacity and commitment to responsible exit.** Attaining buy-in across functions and departments within both investor and client organizations, as well as building internal capacity to implement responsible exit approaches, are essential steps emphasized by interviewees across DFIs, banks, and CSOs. Investor participants are at different stages

49. See, for example, Shift's Leadership and Governance Indicators of a Rights Respecting Culture, <https://shiftproject.org/resource/lg-indicators/about-lgis/>

50. For an overview of different types of leverage available to DFIs, see OHCHR (2022b), *Remedy in Development Finance, Guidance and Practice*, p. 51, <https://www.ohchr.org/sites/default/files/2022-03/Remedy-in-Development.pdf>

of building this capacity, with some still at the early stage of working to get buy-in from departments or functions other than E&S. In general, interviewees noted that the common separation of commercial concerns and E&S performance into different teams using different performance metrics results in poor integration. This in turn hinders effective implementation of responsible exit approaches.

- **Understanding ongoing impacts.** Due diligence has been identified by standard-setters as an important aspect of planning for responsible exit. CAO's study found a shift among investors toward seeing due diligence as an ongoing process rather than a one-off step when a potential investment is being vetted. Interviewed DFIs stated that they either already actively monitor ongoing impacts of their investments through regular E&S assessments and reporting of human rights impacts, or plan to do so. Such ongoing monitoring allows DFIs to work with clients proactively to prevent and mitigate impacts associated with the investment.

BOX 3

What is leverage?

An investor's leverages refers to its ability to bring about a change in behaviors on the part of the actor (such as the investee company) causing or contributing to E&S harms in the context of a project or investment.^a

The concept of leverage is relevant to an investor's decision on whether or not to exit. Where the investor's efforts over time to use leverage to mitigate harms prove unsuccessful, and the impacts remain severe, the investor needs to consider whether and how it can exit the relationship responsibly. An investor may also need to use leverage in executing exit, to mitigate additional and separate harms that would arise from exiting.

FORMS OF LEVERAGE

Investors sometimes define leverage in narrow terms, confined to the covenants and other terms and conditions of project financing. However, in addition to standard legal agreements, leverage can also be derived from:

- An investor's position within a hierarchy or value chain of financiers (for example, if the loan is syndicated, or the investor acts as a "signaler" of investment-worthiness).
- An investor's political position within and outside the company (for example, does the investor have a long-term relationship with the client or a seat on its Board?).
- A DFI's relationship with the relevant government or with other significant third parties.

In addition, investor expertise — such as in specific sectors or on E&S risk management — is often valuable to clients. Investor staff skills in areas such as relationship-building, negotiation, and consensus-building are very real sources of leverage already commonly used by investment officers in the course of identifying investment opportunities and closing transactions. Similarly, investors'

strategic resources, such as relationships with other business service providers and governments, add value for clients.

In this way, the degree of leverage the investor has over the client need not be static — it can be built, individually by the investor or in collaboration with other actors.

LEVERAGE PLANS

Conducting a leverage assessment and drafting a leverage plan is central to planning for a responsible exit. This process should take account of the following:

- Forms of leverage will differ among investments and instruments.
- The availability and effectiveness of different forms of leverage will vary according to the stage in the investment life cycle.
- Some forms of leverage are directly between the investor and the client, while others can be used indirectly through the investor's relationships or other stakeholders.
- When providers of development financing exit a project, in certain cases this may constitute an act of leverage — for example, by virtue of the signaling power to the market.
- Post-exit leverage is also possible and should be included in planning.

a. Leverage in the context of responsible exit is different from the concept of leverage in corporate financing strategy.

Stage 2. Deciding to exit

Emerging good practice suggests that any decision to exit should be based on appropriate knowledge about the ongoing impacts of the project, as well as the potential impacts of divestment. In addition, where the exit is being considered due to concerns about environmental or social issues, it should be the last resort of an escalation process that first aims to understand and use leverage to try to improve the situation for affected stakeholders. The more severe the impacts, the faster the investor would need to see progress from leverage attempts before making a decision to exit.

As illustrated in Figure 3, in practice investors typically execute a planned exit from an equity investment when there is a suitable liquidity event. Consideration of an unplanned exit from an active exit product can be triggered where there are harms that have not been remediated or project-related E&S risks that the investor has been unable to address, including through the use of leverage with the client.

Many passive exits from projects take place as foreseen and planned at the outset, such as a loan reaching its repayment date. However, unplanned exits can take place in certain circumstances, such as when a client prepays or a DFI cancels a loan. Either party can initiate an unplanned or early exit, as long as it does not violate the terms or conditions of the loan agreement.

Study participants emphasized the following elements as important to any decision to exit:

- ▶ **Understand the investor's relationship to impacts.** The specific nature of investors' link(s) to adverse impacts and harm should inform expectations regarding the level of responsibility the investor takes for enabling, contributing to, or providing remedy for harm. For example, pursuant to international standards, there is a connection to harm if a financial institution causes or contributes to an adverse impact, or if its operations, products, or services are directly linked to adverse impacts through a business relationship. DFI interviewees noted that their initial E&S impact assessments already routinely identify the E&S risks a project may cause or contribute to. Building on this process, they are considering how to apply the "connection to harm" framework from the UNGPs and OECD Guidelines to inform their analysis of incidents and decisions on further actions, such as in remedying existing harm before divestment (see Appendix C for more on "connection to harm").
- ▶ **Consider both profit and E&S/ESG mandates.** Executing responsible exit strategies can be challenging for investors. This is especially true in the absence of internal organizational alignment on the importance of considering E&S impact and development mandates in exit decisions alongside commercial legal, reputational, and other considerations, and of involving E&S staff alongside investment officers. Financial institutions are currently building internal capacity for responsible exit, incorporating sustainability impacts into incentive structures and key performance indicators (KPIs), and encouraging investment officers to share ownership of strategies to mitigate adverse sustainability impact.
- ▶ **Consider the potential adverse E&S impacts of exiting compared with those of continuing with an investment.** Many study participants agreed that an investor's decision to divest should consider E&S impacts under both these scenarios before making a decision. Among their responses to the CAO survey, a pre-exit E&S risk assessment emerged as the most widely adopted practice by those who were developing an approach to responsible exit. Drafting an E&S-focused exit memorandum was the joint second most common practice. Good practice among DFIs requires investment officers to describe the implications of exit for generating further adverse impacts in the exit memoranda they prepare. However, DFI and bank participants in particular indicated that other concerns, including reputational risk and the commercial gains from exit, have also played a role in decisions to date. One DFI noted that it is developing incentives and performance assessments designed to help expand the considerations made at exit to include E&S issues.⁵¹
- ▶ **Engage stakeholders.** Ongoing stakeholder engagement in an exit situation is important both to monitor the changing situation and to communicate decisions. Many DFIs are committed to seeking the perspectives of affected stakeholders⁵² in project areas in order to clearly identify the potential impacts of exit and how stakeholders view such a course of action. Emerging practice also includes engaging stakeholders on the decision to exit and providing options or scenarios for them to consider. Survey participants described stakeholder engagement as a central approach to responsible exit, and a practice that some are already enhancing and trialing in that context.

51. See also the June 2021 Disclosure by the US Development Finance Corporation (DFC) to the Operating Principles on Impact Management, which notes that: "DFC is considering ways to incorporate staff incentives and performance indicators that are linked, in part, to the advancement of DFC's Development Strategy and its metrics."

52. For example, IFC's Sustainability Policy notes: "IFC believes that the client's regular engagement with stakeholders about matters that directly affect them plays an important role in avoiding or minimizing risks and impacts to people and the environment."

- ▶ **Exit as the ultimate leverage.** In the case of investments where clients are not addressing adverse impacts on local communities, financial institutions view a decision to exit as an acknowledgment that available leverage with the investee has been exhausted.⁵³ However, the threat of exit, and of investor actions taken after using this form of leverage, can provide pressure for an investee to allow an exit to take place due to its failure to remediate adverse impacts. Blacklisting from future investments and public disclosure by the investor are examples of the types of actions investors can take when they conduct an exit as leverage.

Stage 3. Designing and executing exit

Study participants, including DFIs, a commercial bank, and impact investors, revealed that they currently deploy the following elements in developing strategies to effectively execute responsible exit from an investment:

- ▶ **Engaging stakeholders to inform the exit methodology.** There was consensus that engaging with stakeholders when deciding whether to exit should inform the design of the exit strategy, drawing on local communities' perspectives of how it will affect them. Participants viewed such consultation as an important element in the exit process to identify and mitigate E&S impacts and risks.
- ▶ **Mitigating and remediating negative impacts.** The typical instrument that financial institutions use for remediation of residual impacts is an effective environmental and social action plan. Yet interviewees also noted that investors may find themselves with limited leverage over clients to effectively implement such a plan at the time of deciding to exit. This risk can be mitigated through better planning for potential exit and the use of leverage, if needed, in addressing E&S risks and any unremediated harm.
- ▶ **Sustainability of positive impacts.** One of the most frequently cited strategies by study participants was to look for a suitable buyer once they have decided on exit. Impact investor interviewees, in particular, noted that this was an important element of a responsible exit because selling to a like-minded buyer would support the continuation of positive impact. Conducting E&S due diligence on a buyer during the selection process, and communicating clear expectations to potential buyers, were seen as core parts of the selection and transfer or transition process. Investors have also experimented with incorporating E&S provisions into a sale contract or engaging after exit with a new buyer and/or affected stakeholders or their representatives on the ground to monitor impacts. Some also cited using existing relationships with the investee or other investors to address shortcomings. One DFI reported that in some cases it reduces or waives early repayment fees on a loan for borrowers in exchange for input into the selection of a buyer with solid E&S credentials.
- ▶ **Communicating with the market about E&S risk management.** ESG data about companies and funds are becoming increasingly valuable to investors to help make investment decisions.⁵⁴ However, CSOs highlighted a gap in existing DFI practice compared to the more

53. Commentary to UNGPs Principle 1 states that exit should apply upon the exhaustion of leverage over an entity causing harm: "There are situations in which the enterprise lacks the leverage to prevent or mitigate adverse impacts and is unable to increase its leverage. Here, the enterprise should consider ending the relationship, taking into account credible assessments of potential adverse human rights impacts of doing so."

54. Jon Hale, "Sustainable Funds Weather the First Quarter Better Than Conventional Funds," Morningstar, April 2020.

robust ESG disclosure common among some banks and impact investors. They argued that DFIs exiting from investments should correct market perceptions about the E&S credentials of clients or projects when harms have not been remediated and the DFI has had to exit for negative reasons. When companies have received a DFI investment, it can be seen as a signal of robust E&S credentials, particularly when that signaling is part of an investor's mandate or the value proposition to the investee. Disclosure of relevant E&S information on such investments provides a form of leverage with the investee — both as an incentive for good E&S performance and as a disincentive for weak performance. It can also strengthen perceptions of the investor's value, by going from simply “signaling” a DFI's involvement to providing accurate information regarding an investee's E&S performance. Such disclosures can also be valuable to other investors by informing the design of new investments to enhance E&S performance.

- **Responsible re-engagement.** In situations where an investor has exited for E&S reasons but wishes to invest again with the same client, the same project, or a different project being developed by the parent company, heightened due diligence of the new investment is warranted. CSO study participants consistently cited this as another gap in current DFI practice, while existing practice reported by DFIs suggest some processes for avoiding repeat business with problematic clients do exist, but are informal.

In summary, practice among DFIs interviewed involves the integration of responsible exit considerations in both active, planned exit strategies from equity and early, as well as unplanned, exit from quasi-equity, equity, or debt, including where the unplanned exit is being considered for reasons that are not related to E&S risk or performance.

In general, DFIs are starting out by applying responsible exit approaches to unplanned exits, such as where significant commercial issues have arisen or projects are distressed. However, they reported plans to expand responsible exit strategies to planned exits as well, and said they expected such approaches would ultimately be applied to their full range of investment instruments.

Conclusions

CAO's landscape study yielded six conclusions regarding current guidance by standard-setters and the latest thinking and practice by financial actors on responsible exit. These conclusions, summarized below and in Table 8, provide valuable insights for investors to consider in developing approaches to responsible exit.

- 1. Responsible exit approaches have support among a broad range of stakeholders — including financial institutions.** Financial Institutions are developing, piloting, and implementing practices. Over the past five years, DFIs, commercial banks, and impact investors have taken significant steps forward on exiting responsibly from investments. These range from remedying harms after exit (such as the ING DAPL and ANZ Phnom Penh Sugar investments) (see also Appendix D) to assessing when to exit, and consulting and planning for a responsible exit (such as the IDB Invest San Mateo and San Andres investments). Some investors have also adopted specific responsible exit commitments in investment policies, such as British International Investment's Policy on Responsible Investing, published in 2022.⁵⁵ In parallel, investors are exploring approaches on the related issue of remedy for communities affected by investment-related E&S harms. The investors and CSOs interviewed for this study look to IFC as a leader on sustainability and will evaluate IFC's proposed approach to responsible exits to inform development of their own strategies.
- 2. Commitments to exiting responsibly from investments are already in place through existing international frameworks, the policies of DFIs and banks, and the investment strategies of impact investors.** Participants view responsible exit as the application of commitments in existing sustainability frameworks. In terms of implementation, investors seek to integrate responsible exit strategies into processes for identifying, avoiding, mitigating, and remediating negative impacts that they already apply during other stages of the investment cycle. Put simply, responsible exit is integral to existing sustainability frameworks and impact investing models that seek to achieve sustainable E&S performance of investments.
- 3. A responsible exit is more than simply a decision as to whether or not to exit.** It is a strategy for exit that seeks to address negative impacts and maximize positive E&S outcomes. Interviewees acknowledged that conducting a responsible exit means applying the existing sustainability principles and obligations of an investor regarding E&S impacts both to the decision to divest and to the way in which divestment is conducted. Some investors implemented this approach by supporting their clients in addressing identified adverse E&S impacts and related complaints from individuals in project areas before exiting. In addition, the civil society interviewees, and many investors, stated that enabling or providing remedy to address harm — where appropriate — should be part of a responsible exit.
- 4. A responsible exit entails planning, preparation, and other actions that begin early in the investment life cycle, during the appraisal/due diligence phase.** This early planning for exit involves understanding at the outset what kind of leverage an investor has with a potential investee company, and building leverage where needed to prepare for potential challenges. Financial institutions are starting to build assessments of leverage into their due diligence processes alongside E&S assessment prior to any decision to invest. During supervision,

55. BII released its Responsible Investment Policy in April 2022, replacing the previous Code of Responsible Investment. Section 4.4 addresses exit specifically.

as new information about E&S risks become known, participants agreed that mitigation strategies may need to be adapted and leverage and exit plans reviewed. During exit discussions, decisions are then informed by an analysis of adverse E&S impacts, the investor's leverage over the investee should it remain invested, and an assessment of whether the DFI has caused, contributed to, or is directly linked to E&S impacts during the investment.

5. **The views of impacted communities and individuals are vital in informing plans for exiting responsibly and supporting efforts to manage the exit in ways that mitigate or address harm and enable continued positive E&S project performance.** Investor interviewees agreed that in situations where harm has occurred or E&S risks have been identified, efforts should be made to seek the perspective of people in the project area in order to inform exit decision-making and planning. In some cases, project-affected communities have even been consulted on the approach investors should take to public communication and other disclosures surrounding divestment.
6. **Responsible exit approaches are relevant and applicable to a wide range of investment products and to both designated high-risk and lower-risk projects.** Current investor practices suggest that responsible exit can apply equally to passive or active exits (for example, to debt as well as equity). In addition, investors reported that it can be applied to a wide range of product types, such as advisory and trade financing, in addition to project lending and equity investments. DFI representatives also noted that they ultimately expect, over time, to apply responsible exit strategies to their full range of investment instruments. Similarly, investors agreed that they should apply a broad approach to the types of projects they exit from. This includes exiting responsibly from projects categorized as low or medium risk, with responsible exit approaches seen as integral to ordinary design of E&S risk management of investments, rather than a mitigation strategy specific to high-risk projects.

Table 8. Key elements of a responsible exit based on study findings

ELEMENTS OF RESPONSIBLE EXIT	
✓	Responsible exit is planned for during due diligence, with investors building appropriate leverage and risk mitigation into the investment structuring, covenants, other terms, and conditions.
✓	Effective supervision of the project and monitoring of client grievance mechanism is undertaken to identify emerging risks.
✓	Existing leverage and new opportunities for leverage are identified and used toward enhanced E&S risk management.
✓	Capacity of the client is built to sustain good E&S performance.
✓	Stakeholder engagement identifies the views of project-affected people and latent risks, and informs decisions.
✓	A decision to exit is made considering E&S risks and sustaining good E&S performance.
✓	Adverse impacts are remediated.
✓	The client and project sustain sound E&S management after the investor has exited.

Implications for IFC and MIGA's responsible exit strategy

IFC's Sustainability Framework enshrines commitments that are pertinent to exit as well as other stages of the investment life cycle. These are also applicable to the full range of products or financial instruments that are used for investments and the full range of different types of exits that take place (see Figure 3).

A well-defined set of objectives and an approach for achieving a responsible exit would build on these existing commitments. Any corporate concerns such as internal capacity limitations, conflicting expectations on roles, or potential liability, among others, could be addressed — on a case by case basis — within that approach, with the aim to achieve a responsible exit.

In addition to the baseline commitments in the Sustainability Framework, existing IFC procedures, practices, and tools are applied to current projects in terms of performing due diligence, structuring investments, preparing contracts and related documentation, and monitoring and supervising investments. These procedures and practices can already provide the basis for exiting responsibly from an investment, but may need to be adapted and should be employed explicitly toward that goal.



CAO's landscape study suggests that there are some gaps in the Sustainability Framework that IFC could consider addressing in order to conduct responsible exits more effectively. These gaps include:

- ▶ Clarity on the specific objectives of a responsible exit strategy based on existing commitments in IFC's Sustainability Policy
- ▶ Strengthening sustained and effective application of IFC's risk mitigation hierarchy throughout the investment life cycle
- ▶ Operationalizing commitments to remedying harm that has been incurred but not been remedied during the course of the investment
- ▶ Determining where existing procedures and tools for E&S due diligence and risk mitigation used in the investment life cycle may be utilized as the investment moves toward maturity, as well as earlier in the investment
- ▶ Adapting and strengthening procedures and practices related to building client capacity in E&S risk management
- ▶ Enhancing stakeholder engagement — not least in understanding whether, when, and how a responsible exit could take place from a specific investment
- ▶ Broadening and strengthening the range of effective tools used by IFC in situations of client non-compliance.

The Sustainability Policy describes IFC's role during the course of an investment as ensuring the client employs the mitigation hierarchy in order to comply with the IFC Performance Standards. In fulfilling this role in relation to exits, guidance by standard-setters and learning from other financial institutions underscores the importance of leverage in assuring client management of E&S risks and remediation of harm before maturity or divestment. IFC could identify and employ a full range of forms of leverage, ways of building leverage, and opportunities for exercising leverage effectively with its clients. Such leverage could encompass legal, normative, collective, and relationship-based actions and would likely look different for passive and active exits and in situations of unplanned exits and regular exits. DFIs and other financial institutions look to IFC's and MIGA's leadership on responsible exit. A leadership role in sustainability is central to the value proposition to clients. As other financial institutions are moving ahead with defining, disclosing, and applying their approaches to responsible exit, IFC and MIGA should too, in alignment with existing commitments and with benchmarks set forth by standard-setters— OHCHR, in particular.

Consultation and peer learning with other financial institutions is an important aspect of playing a leading role on responsible exit. Equally important would be for IFC and MIGA to think beyond existing practices of other financial institutions as the parameters in defining an approach to responsible exit, but rather to approach leadership on this issue as the opportunity to codify normative goals and define strategies for achieving those, regardless of whether IFC will take an incremental approach to its own plans for institutionalizing responsible exit.

Appendixes



Appendix A. Examples of DFI and commercial bank investments that have attracted negative attention because of harms incurred

PROJECT NAME AND LOCATION	INVESTORS	INVESTMENT (TYPE, YEAR, ETC.)	SUMMARY OF ISSUES RAISED AND BY WHOM	CSO REPORTING /MEDIA COVERAGE	OUTCOME
Buchanan Renewables Liberia	US Overseas Private Investment Corporation (OPIC) Swedish state-owned company Vattenfall Swedish development finance institution, Swedfund	2009–2011: OPIC invested US\$216.7 million in loans to Buchanan Renewable Fuels (BRF). 2010: 30% equity investment from Vattenfall and Swedfund. 2012: Minority shareholders Vattenfall and Swedfund divest and Buchanan liquidates its operations.	Jan. 2014: Green Advocates and Accountability Council file a complaint against OPIC for adverse project impacts by Buchanan Renewables regarding sexual exploitation, loss of livelihoods, and environmental impacts. Since the complaint was made after OPIC's exit, the standard OPIC accountability process was not available to the communities. Sept. 2014: OPIC's Office of Accountability released an independent investigation report that confirmed that all groups of complainants had suffered harm from the project and identified gaps in OPIC's ability to identify and protect vulnerable groups. However, no remedy has been provided to affected stakeholders.	OPIC's investment was covered by the media (Associated Press, 2015), highlighting the human rights and environmental issues. Several CSOs also reported adverse E&S impacts on local communities particularly for female charcoal producers, local rubber farmers, and BRF employees, linked to the Swedish investments. Swedwatch published a report that looks at the decision by Vattenfall and Swedfund, two Swedish minority shareholders of the company, to divest from BRF in May 2012. Several CSOs, including Swedwatch and SOMO, have published investigative reports highlighting the negative impacts and making recommendations.	After Vattenfall and Swedfund's exit, Buchanan Renewables ceased operations, laid off 600 workers, and terminated contracts with local smallholder farmers growing rubber trees for the company. Local communities were left to manage both the existing issues and the impacts of the project's closure on their own.

PROJECT NAME AND LOCATION	INVESTORS	INVESTMENT (TYPE, YEAR, ETC.)	SUMMARY OF ISSUES RAISED AND BY WHOM	CSO REPORTING /MEDIA COVERAGE	OUTCOME
Addax Bio Energy Sierra Leone	Swedfund and FMO (Dutch Entrepreneurial Development Bank)	2011: Swedfund and FMO took a minority stake in Addax Bioenergy (8% and 17%, respectively). The project was the biggest agriculture investment ever undertaken in Sierra Leone. 2015–2016: Addax Bioenergy project faced many challenges, including job losses, children not attending school, and widespread food insecurity, leading to severe financial constraints and scale down. Dec. 2015: Swedfund and FMO exited the project. Dec. 2016: Operations resumed under new majority owner, Sunbird Energy. Local communities reported serious impacts on access to and quality of drinking water due to contamination allegedly caused by resumed operations. 2018: Brown Investment PLC from Sri Lanka became new owner.	2016: The affected communities, together with SiLNoRF (a network of national CSOs), filed a letter of complaint to the European DFIs. It was eventually rejected on the grounds that the contract between the company and DFIs no longer existed. (link) 2017: New operations under SunEnergy led to rehiring of some employees, but also a lack of consultation, pollution of drinking water, and threats to human rights defenders.	Nov. 2017: Swedfund published an investigative report stating that neither Swedfund nor FMO adequately addressed human rights risks and impacts before exiting. It called on Sunbird to address the immediate negative impacts on drinking water, and improve stakeholder engagement with affected communities. The report also emphasized the need for risk assessments and mitigation measures to include an exit perspective, take into account human rights risks in case of an unexpected project failure, and be financed from the beginning.	2020: In the last monitoring report, SiLNoRF reported on the pending displacement of people and worsening food insecurity in the region.

PROJECT NAME AND LOCATION	INVESTORS	INVESTMENT (TYPE, YEAR, ETC.)	SUMMARY OF ISSUES RAISED AND BY WHOM	CSO REPORTING / MEDIA COVERAGE	OUTCOME
US-based Inter-American Infrastructure Finance Corporation/ Corporación Interamericana para el Financiamiento de Infraestructura (CIFI) Guatemala	IFC	2008: IFC invested a \$20 million A loan & \$10 million equity investment in CIFI, a non-banking financial institution, to provide financing to small and medium infrastructure projects across Latin America and the Caribbean. 2011: CIFI made an investment in Hidro Santa Cruz (HSC) for the construction of the Canbalam hydropower plant in Santa Cruz Barillas, Guatemala. May 2012: After months of community protests and violent incidents, the client suspended disbursements to the project and notified IFC. Nov. 2015: CIFI terminated its loan to the project. Dec. 2016: The project was abandoned.	Jul. 2015: CAO received a complaint alleging poor consultation with the indigenous communities and that community members' opposition to the project had been met with violence and repression on the part of the company and the government.	The investment attracted media coverage emphasizing the need for a responsible exit by IFC. Oct. 2019: Oxfam and Recourse (formerly BIC Europe) sent a letter to the World Bank's Board of Directors urging them to ensure that IFC took responsibility for supporting communities in Santa Cruz Barillas, Guatemala.	Dec. 2018: A CAO compliance investigation found related non-compliance issues and that IFC was aware of residual impacts, but did not assess, reduce, mitigate, or compensate impacted community members. Mar. 2020: IFC committed to reviewing its investment operations, policies, and procedures as they relate to exit. IFC announced a series of reforms on several issues, including those related to transparency and accountability in financial intermediary lending.

PROJECT NAME AND LOCATION	INVESTORS	INVESTMENT (TYPE, YEAR, ETC.)	SUMMARY OF ISSUES RAISED AND BY WHOM	CSO REPORTING /MEDIA COVERAGE	OUTCOME
Agua Zarca Honduras	FMO (Dutch Entrepreneurial Development Bank) Finnish development finance institution, Finnfund Central American development bank, CABEL	Feb. 2014: FMO invested in the Agua Zarca Hydroelectric Plant, with Desarrollos Energético SA (DESA) as the local developer. Mar. 2016: Deutsche Bank invested in DESA. Apr. 2015: FMO took a more prominent role as it took over the agent function of CABEL. FMO was responsible for the finance structure (FMO website). May 2016: FMO suspended disbursement of funds for the project and sought a responsible exit. July 2017: Exit was completed by all three financial institutions.	Concerns included a high level of violence associated with the project, intimidation toward indigenous communities, and environmental impacts of the project dam, along with repression of political and social activists in Honduras. 2013: A well-known environmental activist , Berta Cáceres, wrote to FMO after the murder of her colleague Tomás García, asking them not to finance Agua Zarca amid violence against the community. Mar. 2016: Berta Cáceres was killed and her murder was linked to her opposition of Agua Zarca. June 2022: Roberto David Castillo , the former head of DESA, was sentenced for his role in the assassination of indigenous environmentalists in 2016.	Berta Cáceres' death led to widespread media coverage, international protests, and awareness campaigns promoting environmental activism and rights of indigenous peoples. May 2021 : ENDS, SOMO, and Oxfam Novib sent a letter to FMO with five recommendations to prevent future abuses within projects financed by FMO. 1. Establish its own credible and direct lines of communication with project-affected people and CSOs. 2. Launch and consult publicly on a review of its Disclosure Policy. 3. Commit to prepare management action plans in response to complaints and establish remedy funds. 4. Launch and consult publicly on a mandatory Position Statement on financial intermediaries. 5. Develop a clear climate vision across all its operations, including public reporting on and targets to reduce emissions.	Sept. 2016: A fact-finding mission was sent by the lenders, whose findings were published in this report . 2018: Legal action was commenced against FMO for its involvement in the Agua Zarca project. The complainants were three children of Berta Cáceres, two members of communities near the Agua Zarca project, and COPINH. As a group they are referred to as "COPINH et al." in legal documents. COPINH et al. argue that FMO violated its duty of care and has actively contributed to human rights violations. COPINH et al. and FMO started an ongoing settlement procedure to find common ground and a way forward that is mutually acceptable to all parties (see FMO website). Exit was completed in 2017, applying elements of responsible exit focused on remedy. FMO developed an exit strategy with three main goals: • Help avoid additional escalation of disputes in the area and internationally. • Meet some of the development needs of local communities (whether or not they supported or opposed the project). • Respect our contractual obligations.

PROJECT NAME AND LOCATION	INVESTORS	INVESTMENT (TYPE, YEAR, ETC.)	SUMMARY OF ISSUES RAISED AND BY WHOM	CSO REPORTING /MEDIA COVERAGE	OUTCOME
Generadora San Mateo S.A. and Generadora San Andrés S.A. Hydroelectric Projects Guatemala	IDB Invest	Sept. 2013: IDB Invest Board approved a US\$7 million loan to Generadora San Mateo S.A. and US\$6 million to Generadora San Andrés.	2014, 2015, 2017: The works were suspended at various times due to acts of violence against the facilities and machinery. Jan. 2017: Construction of the hydropower plants was suspended. Sept. 2018: Construction of the transmission line was suspended.	Various CSOs and local media drew attention to E&S impacts on local indigenous community members. July 2019: MICI published non-compliance findings that IDB Invest generally failed to comply with several aspects of its assessment and supervision obligations, including E&S assessment and supervision. Dec. 2021: AIDA called on IDB Invest to propose an action plan to address "effective participation of the communities and... contemplate all the damages caused in relation to social dynamics, the increased conflict in the region, the failure to acknowledge the existence of indigenous peoples and their rights, the effects on the ancestral cultural heritage, the differentiated impacts on women, and the lack of prevention and consequent environmental degradation."	Aug. 2021: The US Treasury Department formally responded to MICI's investigation, stating its formal agreement with all 29 recommendations proposed and instructing IDB Invest management to prepare a robust action plan no later than two months after the settlement date. July 2019: MICI distributed the Recommendation for a Compliance Review and its Terms of Reference and recommended that IDB Invest, in consultation with project-affected communities, design a "transition plan," a responsible exit plan to accompany its divestment from two large hydroelectric projects in Guatemala.
Phnom Penh Sugar Cambodia	ANZ (Australia and New Zealand Banking Group)	2011: ANZ Royal, a joint venture with Cambodian conglomerate Royal Group, provided a \$40 million loan to Phnom Penh Sugar. July 2014: ANZ exited financing relationship with Phnom Penh Sugar after unsuccessful attempts to encourage the company to remediate the situation.	2018: ANZ Chief Executive Shanye Elliot acknowledged to a parliamentary committee that project-affected families faced a "dreadful situation." 2019: During a shareholders meeting, Elliot was questioned by shareholders regarding the issue.	Oct. 2014: Complaint made by two CSOs, Inclusive Development International and Equitable Cambodia, to the Australian National Contact Point, or AusNCP, which operates under Australia's Treasury. The issues included forced evictions, child labor, and military-backed land grabs.	2020: ANZ compensated hundreds of families forcibly evicted by a Cambodian sugar plantation and refinery and agreed to pay affected families the gross profit made from the loan. Although not all concerns were resolved, ANZ set an example, demonstrating that banks can contribute to remedy of harm caused by their lending.

PROJECT NAME AND LOCATION	INVESTORS	INVESTMENT (TYPE, YEAR, ETC.)	SUMMARY OF ISSUES RAISED AND BY WHOM	CSO REPORTING /MEDIA COVERAGE	OUTCOME
Condor Gold	IFC	2014: Equity investment up to US\$10 million in Condor Gold PLC. 2019: IFC sold remaining shares and exited project. CAO case was in appraisal when exit took place.	2018: Complaint filed regarding compliance with IFC Performance Standards, focused on water quality and quantity, lack of consultation and information disclosure, potential impacts to biodiversity, risk of seismic activity, risk of displacement.	Sept. 2020: CIEL submitted evidence regarding "acts of intimidation, reprisals, and land grabs" to the Inter-American Human Rights System, the Office of the High Commissioner for Human Rights of the United Nations, and other UN experts.	CAO concluded that IFC's approach to the review and supervision of this project in relation to the issues raised in the complaint did not meet the threshold of raising substantial concerns regarding E&S outcomes and/or issues of systemic importance to IFC that would warrant a compliance investigation.
Ituango Hydroelectric Plant Colombia	IDB Invest and co-financiers Empresas Públicas de Medellín (EPM)	Dec. 2017: IDB Invest signed a \$1 billion senior, unsecured A/B Loan package to Empresas Públicas de Medellín (EPM) to build a 2,400 MW hydropower facility in the northern region of Antioquia, Colombia. Ituango will be the largest hydropower project in the country. The package comprised a \$300 million A loan from the IDB Group, as well as \$50 million co-loan from the IDB Invest-administered China Co-Financing Fund for Latin America and the Caribbean, and a \$650 million B loan from international commercial banks and institutional investors (CDPQ, KFW IPEX, BNP Paribas, ICBC, Sumitomo Mitsui Banking Corporation, BBVA, and Banco Santander). The financing offered a tenor of 12 years for the A loan, and a 12-year and an 8-year tranche for the B loan.	April–May 2018: An avalanche of water and debris resulting from a rapid reopening of a diversion tunnel destroyed homes, bridges, and livelihoods, forcing the evacuation of tens of thousands of people. June 2018: 447 residents of the local municipalities filed a complaint to MICI regarding E&S impacts, lack of access to information, and failure to guarantee effective participation. Dec. 2021: EPM completed the advance loan repayment of its remaining balance of US\$450 million during a MICI investigation.	Numerous CSOs expressed opposition to the project's construction including Movimientos Rios Vivos, CIEL, and AIDA. Feb. 2022: CIEL demanded more transparent decision-making regarding the remaining IDB Group investments related to the project and that a responsible, effective, and participatory exit plan be built with communities.	2020: Export Development Canada (EDC) developed Principles on Leverage and Remedy. However, EDC informed two Canadian CSOs, Above Ground and Amnesty International Canada, that it had no leverage to press Empresas Públicas de Medellín to provide remedy for Hidroituango's harms, as the company repaid all its EDC financing by 2019. After EPM's exit, community members, in coordination with Movimientos Rios Vivos, wrote to President of IDB to work with them on responsible exit plan. Construction of the project continues and is expected to be operational in the Fall of 2022.

PROJECT NAME AND LOCATION	INVESTORS	INVESTMENT (TYPE, YEAR, ETC.)	SUMMARY OF ISSUES RAISED AND BY WHOM	CSO REPORTING /MEDIA COVERAGE	OUTCOME
Unilever Kenya	CVC Capital Partners Fund VIII	June 2022: Unilever sold its tea business ; Ekaterina, to Luxembourg-based CVC Capital Partners Fund VIII.	2007: An attack occurred on a Kenyan tea plantation in Kericho, in which at least 7 people were killed and 56 women raped. The attack was fueled by ethnic tensions during a disputed election.	2015: Employees and residents of a Unilever tea plantation in Kenya filed a lawsuit against Unilever PLC and Unilever Tea Kenya at the High Court of Justice Queen's Bench Division in England. Plaintiffs alleged Unilever failed to protect their workers from the foreseeable risk of ethnic violence. The Court held there was insufficient evidence to demonstrate that Unilever PLC dictated or advised on the terms of Unilever Tea Kenya's crisis management plans; therefore, there is no jurisdiction over the parent company, which is domiciled in England. CSOs supported claimants' application to appeal to the UK Supreme Court against Unilever. July 2019: The Supreme Court refused the claimants' application for permission to appeal the Court of Appeal judgment.	As of Aug 2022: Unilever says it "fully rejects any allegation that it failed in a duty of care to employees or their families in the tragic events following the disputed 2007 elections in Kenya. An international commission of inquiry clearly concluded that the scale and speed of the violence that erupted was unforeseeable and Unilever Tea Kenya took all possible steps at the time to protect staff and dependents, subsequently providing significant support to all affected." A Financial Times article stated: "The deal has become a testing ground for how private equity groups approach workers' pay, conditions and safety in a climate where investors are scrutinising their ethics." CVC saw the investment as an "opportunity here to act as a responsible ESG-focused investor." Labor rights advocates are not convinced.

Appendix B. Selected resources consulted

Standards for exiting responsibly

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San Mateo and San Andres Hydro projects in Guatemala

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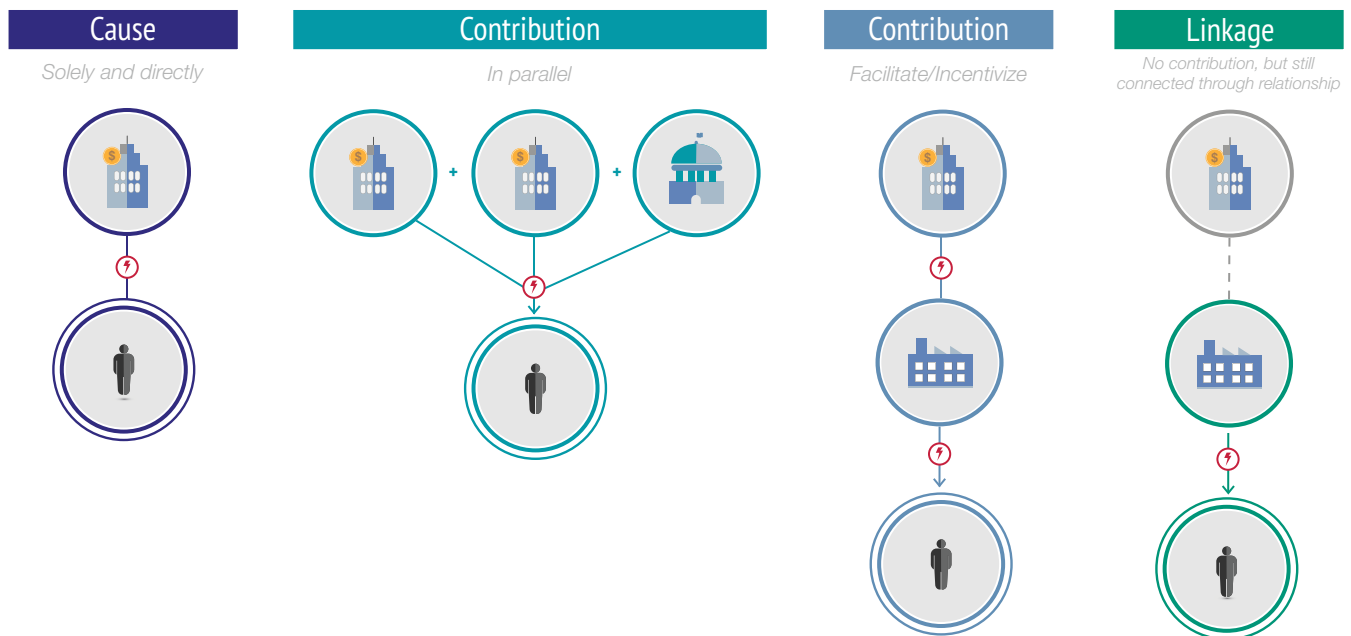
D. Responsible exit and relationship to harm

36. <https://home.treasury.gov/system/files/206/US-Position-MICI-Report-on-IDB-Invest-Guatemala-Generadora-projects.pdf>

Appendix C. Responsible exit and connection to harm

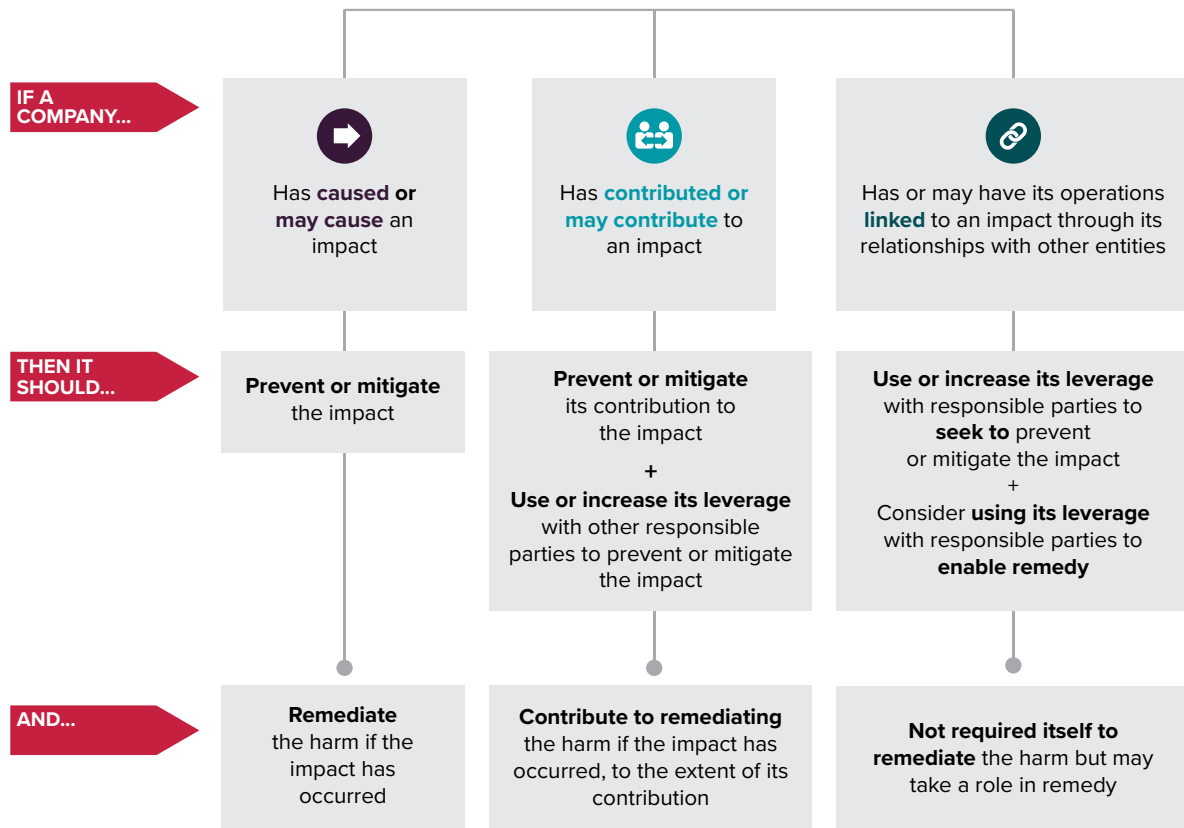
According to the UNGPs and the OECD Guidelines for Multinational Enterprises, a business enterprise (including a development finance institution) can either:

1. **Cause** an adverse impact directly, through its own actions or omissions;
2. **Contribute** to human rights impacts, either by
 - a. Facilitating/enabling or incentivizing impacts caused by third parties, or
 - b. Contributing in parallel — where the actions of the company and third parties together result in an adverse impact;
3. Be **linked** to an impact, where the impact is directly linked to a company's operations, products, or services by a business relationship.



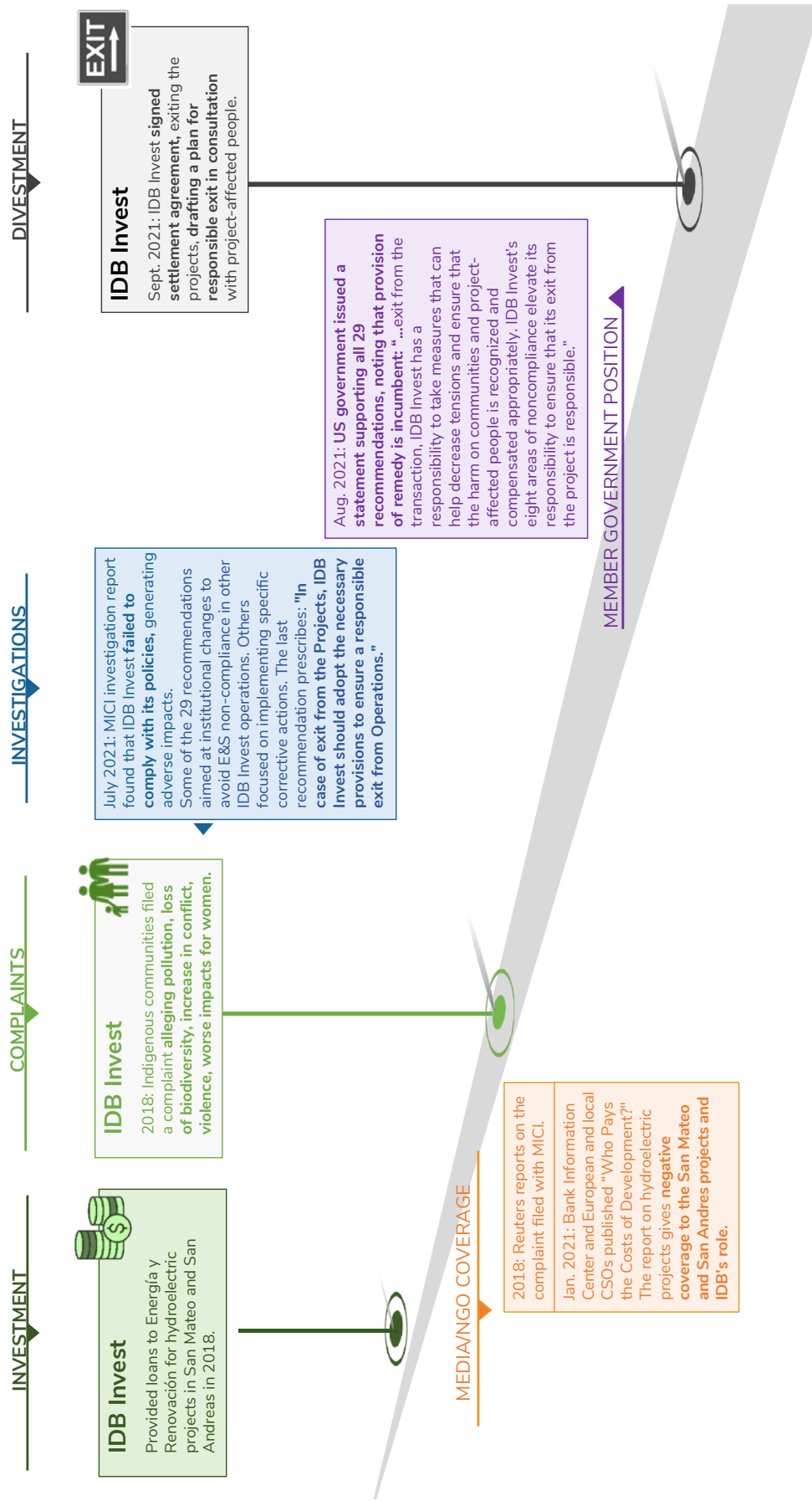
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The corresponding action that should be taken is illustrated in the flow chart that follows.



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Appendix D. Overview of key events in a recent exit with elements of a responsible exit





The Independent Accountability Mechanism for IFC & MIGA

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