

# E&S Monitoring Evaluation NMIA

Executive summary of independent evaluation of the first monitoring report on ESAP implementation in the construction of the New Manila International Airport (NMIA)

May 26, 2023

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## Executive Summary

**This report presents an independent, third-party desktop evaluation of the environmental and social monitoring process of the New Manila International Airport Project.**

On 24 May 2022 the Dutch State, with the advice of Atradius Dutch State Business (ADSB), agreed to provide export credit insurance (ECI) to the Dutch maritime infrastructure company, Boskalis, for land development works the company is carrying out as part of the construction of the New Manila International Airport (NMIA) in the Philippines. The project represents the single-largest investment in the Philippines to date and is meant to provide a long-term solution to air traffic congestion in the country, which has long hindered economic growth and compounded many transportation-related problems.<sup>1</sup> With a contract value of EUR 1.5 billion, the project represents both the largest project that Boskalis has ever undertaken and the largest ECI issued by the Dutch State.

The project comes with significant environmental and social (E&S) risks due to its size, complexity and localisation near nationally and internationally designated areas. The Dutch State understands the E&S risks associated with the Project, which were identified throughout various environmental and social studies, in accordance with international good practice standards. After the Project Owner originally applied less stringent national law, the use of international standards was mandated by ADSB and the Project's Lenders' Group, including the development of a series of Environmental and Social Impact Assessments (ESIAs) and an Environmental and Social Due Diligence (ESDD) that identified any remaining E&S gaps. Subsequently, a contractually binding Environmental and Social Action Plan (ESAP) was agreed upon between the Lenders' Group and the Project Owner. A team of consultants, consisting of Monkey Forest Consulting (MFC) and Earth Active (collectively called the Independent Environmental and Social Consultant (IESC)), was engaged by the Project's group of lenders to develop the ESDD and supervise the implementation of the ESAP. This monitoring now occurs on a quarterly basis. The first monitoring report was approved in December 2022.

The Dutch State, represented by the Dutch Ministry of Finance (MoF) and the Dutch Ministry of Foreign Affairs (MFA), has not received signs of gaps in the monitoring process to date. Nevertheless, it recognises the importance of sound E&S risk monitoring, mitigation and management due to the substantial E&S risks associated with the Project, particularly against the background of concerns raised by civil society actors (CSOs). Therefore, the MoF commissioned an additional check through an independent evaluation of the E&S monitoring activities. The MoF commissioned consulting firm Steward Redqueen ('the Evaluators') to undertake this evaluation. Steward Redqueen specialises in E&S management advice for financial institutions and its previous experience includes an evaluation of ADSB's E&S management approach as well as second opinions on E&S management risk assessment for Dutch governmental infrastructure programmes ORIO, DRIVE and D2B. Steward Redqueen is independent and has no involvement or interest in the Project.

## Objectives

The evaluation has two main objectives. First and foremost, it aims to research and provide a second opinion about whether the established E&S monitoring process enables appropriate monitoring of progress against

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<sup>1</sup> San Miguel Corporation (SMC). New Manila International Airport [Internet]. Online: SMC; *no date*. Available from: <https://www.sanmiguel.com.ph/page/san-miguel-aerocity-inc>.

the ESAP and follow-up actions. Second, it aims to generate insights and learnings on the MoF's role in supervising E&S monitoring of other projects supported through export credit guarantees.

As the implementation of the ESAP is the primary, and contractually-binding, mechanism to manage and mitigate E&S risk, the overall objective is explored by analysing the first quarterly monitoring report of the ESAP. More specifically, this evaluation explores four research questions:

1. Is the monitoring process of the Lenders' Consultants adequately designed and structured?
2. Does the first periodic monitoring report appropriately address and report on ESAP requirements?
3. How do the Lenders' Group and ADSB learn of E&S risks and the progress of ESAP implementation?
4. How could the process be improved to ensure effective E&S risk and ESAP implementation monitoring?

## Scope and methodology

The scope of the evaluation is focused on and limited to the E&S monitoring process carried out by the IESC and its resulting first monitoring report. The process is evaluated by assessing the quality of the IESC, the monitoring mandate, monitoring activities, the report and further communication used to report against the requirements of the ESAP. The evaluation is focused on the process around the completion of the first quarterly monitoring report in December 2022<sup>2</sup> and care has been taken to focus the assessment on this only. Nevertheless, at times our analysis is based on events that occurred after the completion of the report. This is largely due to the passage of time and interlinkage of E&S issues, and accounts for issues that could have been areas of concern in December 2022 but have since been resolved. Furthermore, technically only the E&S aspects of the land development works are included in the scope, but in practice it is challenging to exactly demarcate the boundaries between this work and other current activities of the NMIA development.

The nine key findings are based on a desk review of relevant documents (see Appendix B) and a series of interviews and consultations with the Ministry of Finance, the Ministry of Foreign Affairs, ADSB, the IESC, Boskalis and the Project Owner (see Appendix A) that were carried out between December 2022 and April 2023.

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<sup>2</sup> This means that in its scope the evaluation does not include a focus on whether the Dutch State should back a large infrastructure project in the Philippines, on the selection of the location of the NMIA, on the E&S risks itself, or the adequacy, quality, comprehensiveness or completeness of the E&S impact assessment or the ESAP action items.

# The Project

## Rationale

The plan for a new international airport was initiated in response to growing travel demand and increasing air traffic congestion at Ninoy Aquino International Airport (NAIA), the main gateway to Manila and the Philippines for air travellers. As NAIA has insufficient capacity to meet this growing demand, NMIA is being constructed to fill this gap.

The Project is being developed by San Miguel Aerocity, Inc. (SMAI), a subsidiary of one of the country's largest and most diversified corporations, San Miguel Corporation. The Project is governed by a 50-year Concession Agreement (CA) with the Republic of the Philippines. The Project will be built under a Build-Operate-Transfer (BOT) framework through the (Philippine) Department of Transportation<sup>3</sup> and will operate alongside the existing NAIA. Commercial operations are expected to begin in 2026, with an initial capacity of 35 million annual passengers, which is expected to grow to an eventual capacity of 100 million.

## Location

The Project site is located in the municipality of Bulakan, 35km north of metro Manila, 29km from NAIA, and 61km from Clark, a strategic freeport and special economic zone. The Project will be located within a 2,565-hectare area of mixed-use development with the airport being the main component. The airport is expected to utilise around 1,700 hectares of land with the remaining area allocated for ancillary facilities and other future developments or expansions.

The location of the NMIA is within the vicinity of internationally designated environmental zones. The project area consists of wetlands and mudflats that are the nursery for many fish and bird species and play an important role for migratory birds as a resting place in their travels. It also has a community of local inhabitants, mostly focused on fishing. This means that well planned compensation for the loss of habitat and mangroves as well as resettlement of local communities is of the utmost importance.

## Project components

The Project has several key components, including land development works, access channel dredging, an offshore disposal site, a sand borrow area, and airport construction site.

Boskalis Philippines International (BPI), a subsidiary of Koninklijke Boskalis Westminster BV, is the main contractor for the first four activities of the project and will not be involved in the airport construction. Land development works commenced in Q1 2021, which required the construction of a temporary access channel for vessels required for the land platform construction. Dredged material will be disposed of at a government-designated offshore facility. The sand for the project will be sourced from a designated borrow area at San Nicolas Shoals.

The Engineering, Procurement and Construction (EPC) phase of the airport is expected to start in Q4 2023. The airport complex will be delivered in three phases, with phase one accommodating a minimum of 35 million annual passengers.

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<sup>3</sup> The right to develop to develop the airport complex was given to the Project Company through a long-term lease agreement with an option to develop and acquire the relevant areas to be covered by the Project.

## Key Project actors

The key actors and their relationship to each other is outlined in the schematic overview below.

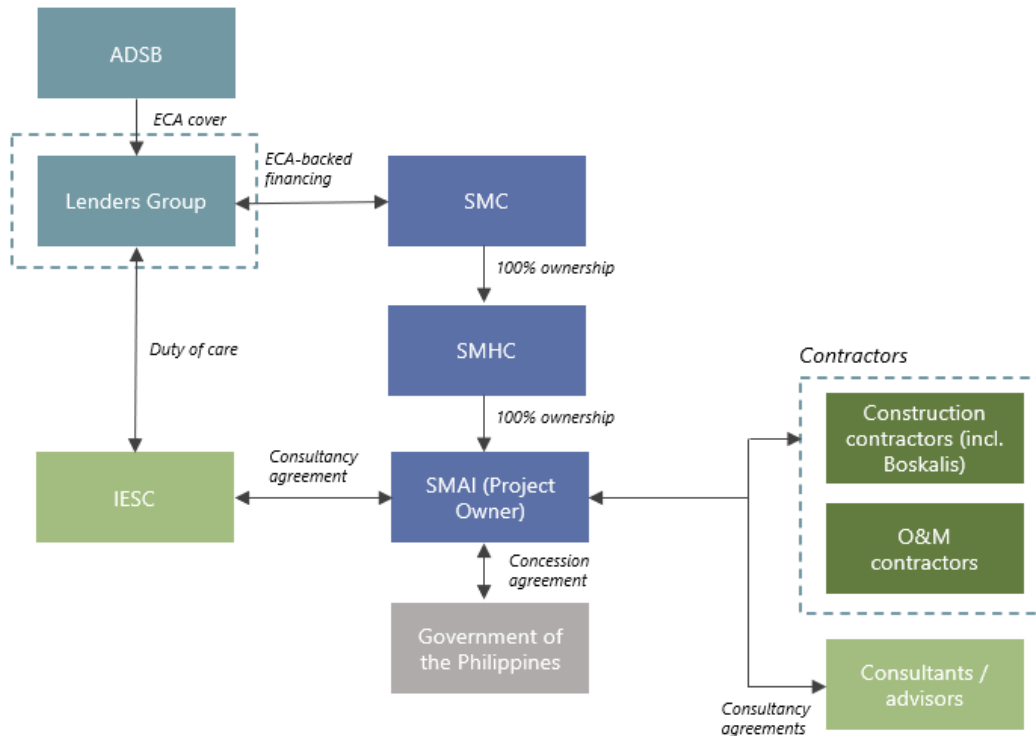


Figure 1 - Schematic of contract structure and key actors

The Project Owner, SMAI, is a 100% subsidiary of the San Miguel Holdings Corporation (SHMC), which is the infrastructure arm of San Miguel Corporation (SMC), by which it is wholly owned. SMC was originally founded in 1890 as a brewery in the Philippines, but has since ventured beyond its core business, with investments in various sectors such as food and drink, finance, infrastructure, oil and energy, transportation, and real estate. SMC is one of the Philippines' largest and most diversified conglomerates, with revenues equivalent to about 4% of the country's GDP. The infrastructure arm handles the construction, management, and operation of the country's largest infrastructure network including roads, airports and water supply. The NMIA is SMC's single largest project, and SMAI is developing, constructing and operating the airport under a 50-year concession agreement from the Government of the Philippines.

Works are carried out by way of contractor agreements with SMAI. Key contractors include Boskalis Philippines Inc. (BPI), a 100% subsidiary of Koninklijke Boskalis Westminster BV, who is the main contractor for the land development works. These contractors have engaged relevant consultants to carry out necessary assessments, such as the internationally recognised environmental consultants Mott Macdonald and ERM (Shanghai-based team) to carry out the ESIA. Mott Macdonald is engaged by SMAI for the main ESIA, while ERM was engaged by BPI to develop supplementary ESIA's on behalf of SMAI. Operational and maintenance (O&M) contractors will be appointed at a later stage and are not relevant to the scope of this assignment.

The Lenders’ Group comprises a set of international commercial banks. ADSB is not an official part of the Lenders’ Group but serves as its ECI issuer and can therefore exert considerable influence. The Lenders’ Group has engaged the IESC, consisting of consulting firms MFC and Earth Active, to advise on E&S management, including the ESDD process, ESAP development and to undertake the quarterly monitoring process that is the subject of this evaluation.

## Key E&S aspects

The Project has been subjected to extensive E&S impact assessment and monitoring, including the ESDD, ESAP and quarterly monitoring report that together are the focus of this evaluation. To ease understanding, the full E&S process is summarised at a high level in the figure below.

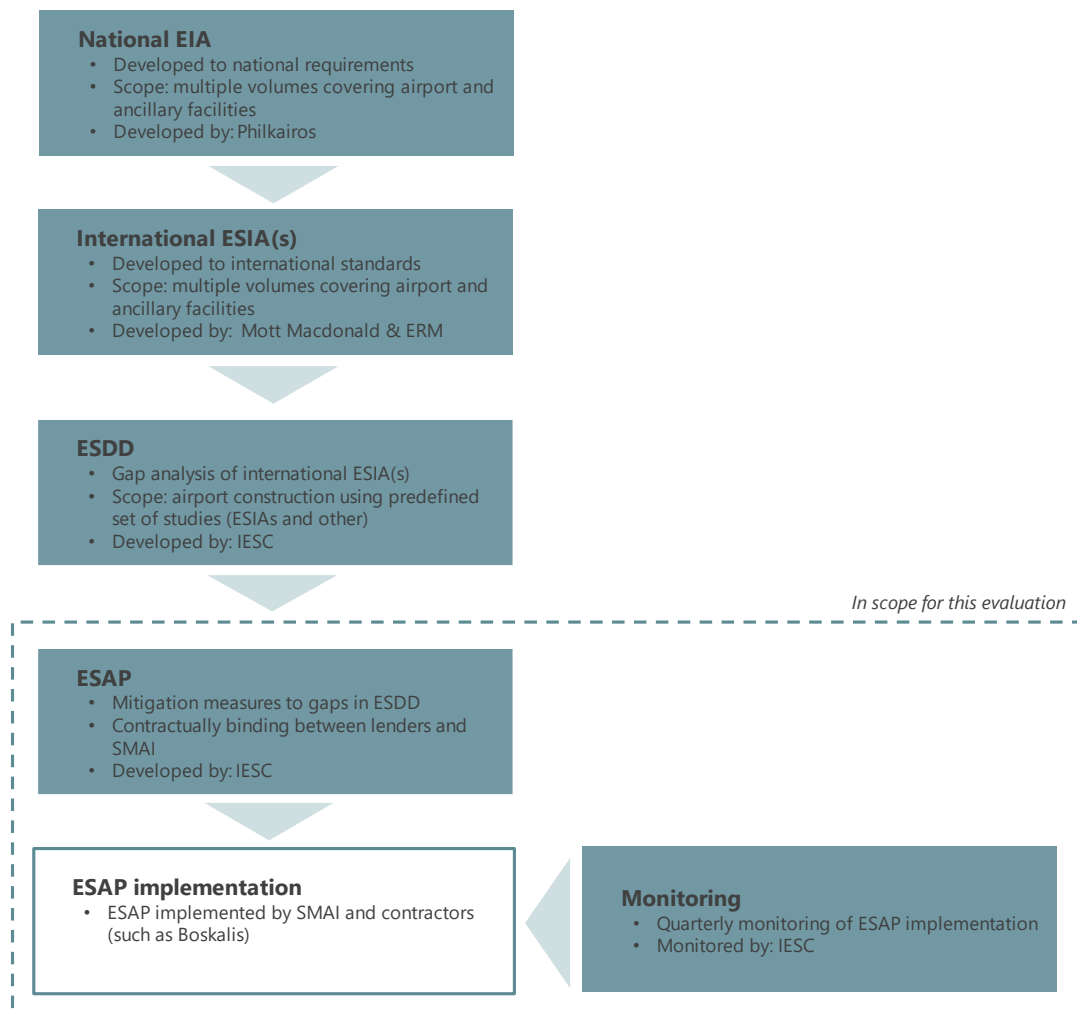


Figure 2 Summary of sequencing of key NMIA E&S documents and processes.

A series of initial environmental impact assessments (EIAs) was carried out to national standards by the local environmental consultancy, Philkairos. When the Lenders’ Group became involved, there was a need to align E&S assessment and management with the international standards that internationally financed projects

typically mandate<sup>4</sup>. As international standards are more stringent than national laws, the existing EIAs did not meet the criteria and a new set of environmental and social impact assessments (ESIAs) was commissioned and carried out by Mott Macdonald and Environmental Resources Management (ERM). Alongside the main ESIA covering the airport facility, additional ESIA volumes were commissioned for ancillary works including but not limited to the land development, access channel, offshore disposal site and sand borrow area at San Nicholas Shoals (SNS).

Subsequently, the Lenders' Group commissioned the IESC to carry out an environmental and social due diligence (ESDD) to analyse and document the E&S status and compliance of the Project with the prescribed international standards prior to financial close. This process identified gaps and proposed action items to mitigate these gaps and address requirements against standards that had not yet come due (due to the stage of Project development). These action items, along with due dates and action owners, were compiled into an environmental and social action plan (ESAP), which became a contractually binding document between the Lenders' Group and SMAI.

Under this arrangement, disbursement is conditional upon appropriate ESAP implementation, and a draw stop may occur in the event of material non-compliances. ESAP implementation is monitored by the IESC on a quarterly basis, producing a quarterly monitoring report to advise the Lenders' Group on progress. It should be noted that the ESAP is a dynamic, living document and is continually updated to reflect progress on implementation and track emerging E&S observations and issues.

## Findings

- 1. The involvement of the Dutch State was pivotal in ensuring the application of international E&S standards and practices for the Project, including the E&S monitoring process.** The Project involves several serious E&S risks, notably but not limited to adverse effects relating to biodiversity and the resettlement of local communities. In its approach to identifying and managing E&S risks, the Project Owner, San Miguel Aerocity Inc. (SMAI), had applied Philippine standards, creating a gap with the more stringent international E&S standards that are required by Dutch Corporate Social Responsibility (CSR) policy for export credit insurance.<sup>5</sup> The Dutch State was only able to agree to issue export credit insurance (ECI) after the parties involved had made it sufficiently plausible that the project will meet international standards. The subsequent E&S assessment ultimately took more than 1.5 years, during which ADSB reviewed the project against international standards with the support of consultants. As a result of this assessment, actions were identified to adequately mitigate and manage E&S issues, which were outlined in an Environmental and Social Action Plan (ESAP). Upon the recommendation of ADSB, the implementation of the ESAP is supervised by MFC and Earth Active, a team of consultants jointly referred to as the Independent Environmental and Social Consultant (IESC). The IESC is contracted by the Project Owner but has a Duty of Care towards the Lenders' Group and ADSB, which uses its leverage as insurer to acquire a position in which it enjoys the same rights as the Lenders' Group. The IESC provides a monitoring

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<sup>4</sup> Including the IFC Performance Standards, Equator Principles, WBG EHS Guidelines, United Nations Framework Convention on Climate Change (UNFCCC), Convention on Biological Diversity (CBD), Convention on International Trade of Endangered Species of Wild Fauna and Flora (CITES), Convention on Conservation of Migratory Species of Wild Animals, United Nations Guiding Principles on Business and Human Rights, International Bill of Human Rights, ILO Core Labour Standards, UN human rights treaties, Dhaka Principles for Migration with Dignity, International Civil Aviation Organizations (ICAO) – safety and environmental requirements, International Air Transport Association (IATA) standards, ISO14001:2015 and ISO45001:2018.

<sup>5</sup> *Exportkredietverzekering MVO Beleidsdocument* (2018).



report on a quarterly basis in which it reports on the implementation of the ESAP. While the involvement of the Dutch State, ADSB and the IESC does not take away the inherent adverse E&S impacts of a project of this size and complexity, it has ensured that good practice international E&S management practices are being applied, and ensures that E&S issues are identified, mitigated and monitored against international standards. If the Project had been supported by a consortium of financiers with lower commitment to (international) E&S standards, it is likely that adverse E&S impacts would not have been appropriately identified, mitigated or monitored, likely leading to more severe adverse outcomes.

- 2. The monitoring process is crucial for providing structure, building capacity and ensuring sustainability in the Project Owner's E&S management in this Project and beyond.** Ultimately, the adequate management of E&S aspects is the responsibility of SMAI as the Project Owner, with support and oversight from the Lenders' Group. Adequate E&S management can thus only be guaranteed in a sustainable manner if there is ownership and the right level of capacity at the Project Owner. While San Miguel Corporation (SMC) is one of the Philippines' largest and most diversified conglomerates, with revenues equivalent to about 4% of the country's GDP, it did not yet have the expertise or capacity to manage all the E&S risks of an infrastructure project of this size and complexity to international standards. This means that, in this case, the monitoring process goes beyond mere monitoring and reporting to international financiers and is as much a capacity building as a monitoring exercise. It also means that the IESC plays a de facto dual role: the traditional function of checking on progress against the ESAP and advising on capacity building. As part of its capacity building, the IESC provides detailed guidance in supporting SMC to understand international standards, good practice, how they may be applied in the context of the project, and detailed guidance on specific lender requirements.
- 3. The two consulting firms that jointly form the IESC have adequate expertise and experience for the E&S monitoring of the Project.** The IESC has extensive experience in monitoring, implementing E&S management systems, and capacity building of local teams within the context of complex, large-scale, nationally significant infrastructure projects. Examples of such projects include a hydropower and forestry project in the Democratic Republic of Congo, a refinery and petrochemical complex in Vietnam, an airport in Madagascar, and an oil pipeline project in Uganda. Their past projects also involve working with development financiers (including FMO, KfW, World Bank/IFC, EBRD) and export credit agencies. Moreover, some of MFC's staff have roots in the Philippines and the company has a track record which includes several E&S management projects in the country. This allows the consultants to understand the local context, cultural sensitivities, and nuances of working in the country, which is a significant asset in designing and embedding their monitoring approach. It has also allowed them to take in experiences and feedback from local communities in informal ways. Given their credentials and the expertise demonstrated throughout the interviews conducted, it can be concluded that the IESC are well-qualified, experienced, and equipped to undertake a complex project of this nature.
- 4. The mandate to the IESC is fitting and in line with good practice.** The mandate is based on an agreement the IESC has signed with SMAI. This agreement includes a Duty of Care to the Lenders' Group and ADSB. The IESC is recognised as independent, although SMAI, the Lenders' Group and ADSB are given the opportunity to review and comment on draft reports and other documentation developed by the IESC. In practice, the E&S management process is thus a tripartite, iterative process between the Lenders' Group, ADSB SMAI and the IESC. Based on the activities that are part of the monitoring mandate, this evaluation concludes that the mandate for the monitoring activities is adequate and aligned with the guidance in

Article 9 of the Equator Principles and Section VI of the OECD Common Approaches<sup>6</sup>. With quarterly monitoring cycles, the frequency goes beyond industry good practice, which is justified by the size and complexity of the project. In line with Section VIII of the OECD Common Approaches, the monitoring mandate also incorporates elements that focus on continuous improvement of the project with the ongoing engagement between the IESC, SMAI and the Lenders' Group.

5. **The monitoring process is structured, robust and intensive.** The monitoring process follows a standardised approach. The quarterly monitoring process consists of four key steps built around a week-long monitoring site visit, as well as various fixed periodic meetings. The key steps are:
- I. *Preparation for site visit:* SMAI's quarterly monitoring report and outstanding ESAP items are the starting point for the preparation of the site visit. Based on this, the IESC compiles a document request list and develops a site visit schedule, carefully considering the most material risks and impacts at that point in time, also paying attention to the observed trend per IFC PS<sup>7</sup> item. Based on the selected priorities, the IESC decides which experts are needed for each site visit.
  - II. *Site visit:* the site visit takes place across five days and is organised with the support of SMAI and Boskalis. The composition of the monitoring team varies depending on specific needs identified throughout the monitoring process, but consists at least of 8 core team members, and can run up to 20 involved experts in various fields. The first visit in August 2022 that formed the basis for the first monitoring report was undertaken by 10 experts, of which 7 were international and 3 local. It appears that the IESC has control over the schedule of the site visit, noting in its report that the IESC team was accommodated by senior management and staff, who were well represented. During the site visit, the IESC may also pick up on issues that are not yet included in the scope of the E&S process. Informal monitoring channels, such as random community walks during the site visits, are important to gather these additional insights. Given the IESC's experience in the Philippines and the presence of locals in the E&S monitoring team, it is particularly well-placed to engage in these informal monitoring activities.
  - III. *Post-site visit analysis:* After the site visit, the IESC drafts the Non-Conformance Table (NCT), which notes the key E&S gaps identified during the monitoring visit, and subsequently presents the findings to SMAI. The NCT gives an overview of what items SMAI should prioritise and forms the basis for the IESC Quarterly Monitoring Report.
  - IV. *Monitoring report:* within 45 days of the visit, the IESC submits a monitoring report based on the monitoring visit and document review. SMAI and the Lenders' Group are then both given the opportunity to provide comments on the monitoring report before final submission. In the first monitoring cycle, this step caused delays in the final delivery of the report. The review of the monitoring report was more demanding than expected, given the size of the report (and scale of the Project). For more on the report, see the point below.

In addition, there is contact between the IESC and SMAI as well as the Lenders' Group in a structured, ongoing basis. The following fortnightly calls are repeated throughout the monitoring cycle:

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<sup>6</sup> The OECD Common Approaches refers to a set of guidelines and principles that facilitate the environmental and social assessment of projects financed by export credit agencies and multilateral development banks.

<sup>7</sup> The International Financial Corporation Performance Standards (IFC PS) are a set of eight Performance Standards that define responsibilities for managing the environmental and social risks in the international finance sector. They are considered best practice.

- An update on ESAP progress between the IESC and SMAI;
- An update on the NCT between the IESC and SMAI;
- An update on ESAP monitoring between SMAI, the E&S coordinator of the Lenders' Group and the IESC;
- An overall update on E&S monitoring between the IESC and the Lenders' Group, with an extended call after each site visit to go through the main findings in a presentation.

The IESC recognises that communication between monitoring visits is an essential part of the monitoring process, especially considering the emphasis on capacity building in the project. This allows progress to be made in between monitoring visits and strengthens the working relationships between all parties involved.

6. **The monitoring report is a comprehensive analysis of progress against the ESAP.** The breadth and depth of the quarterly monitoring report is extremely comprehensive, providing in-depth insights and recommendations for each of the IFC PS, in line with good industry practice. The overall monitoring report contains 204 pages (164 excluding appendices). This level of detail in the analysis is considered appropriate considering the magnitude and complexity of the project. However, the comprehensiveness of the report creates a trade-off with its readability, especially considering the time constraints that exist at the Lenders' Group and SMAI. The review of the first monitoring report by SMAI, the Lenders' Group and ADSB resulted in a two-month delay in the adoption of the report. Considering the limited time in between monitoring cycles, this has left little space for SMAI to focus on ESAP implementation. Moreover, as a contractual obligation, the IESC must issue a reliance letter certifying compliance in all material aspects. Given the high level of scrutiny, the report must cover all E&S matters in detail, resulting in similar amounts of space dedicated to both material and non-material E&S items<sup>8</sup>. This creates challenges in terms of understanding what the most important information of the report is.
7. **Despite the robust monitoring process, progress against the ESAP does face challenges.** The E&S monitoring process and the overall E&S management of the Project have experienced several challenges. These are largely outside of the direct control of the IESC and/or ADSB. On all elements where there is a sphere of influence, the IESC is actively taking measures. The following challenges are the most influential ones:
- I. *Capacity constraints:* at the start of the project, SMAI's E&S team only consisted of a handful of individuals with limited experience in implementing the IFC PS. There was no formal environmental and social monitoring system (ESMS)<sup>9</sup> in place, and data collection was significantly behind schedule, notably for IFC PS6 (on Biodiversity). The IESC recognised that these problems could be addressed with the right mix of people, time and resources. Consequently, a core focus for the IESC was advising on recruitment to establish a competent E&S team. This additional focus meant that the IESC has had to deploy additional resources, although it did not affect the quality of monitoring;
  - II. *Recruitment challenges:* as a result of the capacity constraints, the IESC in the first monitoring period had to also focus on advice on the expansion of the size of SMAI's E&S team. This required constant convincing of SMC, as it involved significant additional costs. The recruitment of E&S experts is also

<sup>8</sup> Materiality refers to the relative significance of an E&S item, categorised along robust pre-defined criteria. E&S items in the report are structured along four levels of materiality, in which the lowest level constitutes a potential nonconformance situation that has the potential to materialise (or not) and the highest level includes observed damage to or irreversible impact to an identified resource or community

<sup>9</sup> A set of management processes and procedures that allows an organisation to analyse, control and reduce the environmental and social impact of its activities, products and services, and operate with a greater efficiency and control.

not directly in the control of the SMAI E&S team, as it was led by SMC's Human Resources department and required approval from the finance department, as well as and senior management. In hiring, SMAI also needed to strike a balance between recruiting staff with international E&S management expertise and local staff who understand the Project's context, as the former proved difficult to attain locally. Based on the advice of the IESC during the initial monitoring period, SMC has decided to focus more on (temporary) international experts;

- III. *Cultural aspects*: business and national cultural aspects influenced the monitoring. SMC is one of the oldest and largest corporations in the country with its own corporate culture and structures. This meant that the IESC had to understand how decision-making took place within the company, and some level of diplomacy was important in the formulation of critical points, advice and priorities. This has influenced the pace of change, but was necessary to build mutual understanding, trust, and a constructive working relationship with SMAI. The IESC's advice to implement a bi-weekly meeting with SMC senior management members has been an important step in this regard;
- IV. *Intensity of monitoring process*: The existing monitoring system, which adheres to good industry practices, is labour-intensive and thus time-consuming for SMAI. The preparation of site visits combined with SMAI's lack of experience with international E&S standards caused SMAI to struggle to meet ESAP procedures and deadlines. The paradox is that robust E&S monitoring (with extensive preparation of site visits and reporting requirements) is also to an extent slowing progress on the development of key E&S documents and other actions required by the ESAP. This situation could have been averted if there had been sufficient capacity at SMAI from the onset of the project, and is likely to improve considering an increase in the E&S team at SMAI;
- V. *COVID-19 restrictions*: the development of the ESIA coincided with ongoing COVID-19 restrictions in the Philippines, preventing site visits (for baseline data collection, among other things) and in-person engagement with the Project Owner. Remote working proved challenging, and the recruitment of international E&S experts for the project was initially constrained by COVID-19 restrictions. COVID-19 restrictions were lifted during the first monitoring period, and do therefore not directly affect E&S monitoring anymore, but tight labour markets post-COVID-19 did influence the recruitment of staff.

Despite these challenges, the IESC has commended SMAI's E&S team for their work ethic, dedication, willingness to learn, and understanding of the importance of sound E&S management. The IESC and ADSB have expressed that substantial progress on E&S management and implementation has been made.

8. **Prioritisation of E&S items is key.** The involved parties have different priorities and timelines for E&S actions. SMAI is bound by deadlines set in the concession agreement with the Philippine government. The Lenders' Group aims to make significant progress in E&S early on, as their financial leverage decreases with each loan drawdown. For the IESC, the key consideration in designing E&S monitoring is identifying when E&S impacts and risks manifest on the ground. Taking into account the extensive scope of the monitoring process as well as the long list of E&S actions, prioritising E&S items is crucial to manage the workload at SMAI and guide the company effectively. It requires a delicate balance of applying pressure where specific attention is needed. Attempting to address every IFC PS simultaneously would lead to overload. Therefore, the IESC has chosen to prioritise E&S items based on their level of urgency, determined by the proximity to adverse negative impacts.
9. **The monitoring process contributed to enhanced E&S management capacity and practices both at the Project level and structurally within SMC.** The monitoring process has been the main driver of the scaling up of SMC's E&S team in terms of size and its understanding of E&S issues and expertise on how to manage

them. As of April 2023, SMAI's E&S team has grown substantially to more than 30 members. To bolster its expertise, SMAI has also recruited international E&S experts for PS2, PS5 and PS6 and is currently in search of a PS3 advisor. The company has demonstrated the capacity to rapidly adapt to understand and integrate E&S concerns. Examples of this include a structured approach to stakeholder engagement, comprehensive nature restoration programs in the Manila Bay and improved transparency and communication on project activities. SMAI's E&S team now makes up the majority of SMC's overall E&S team. It means that the E&S management capacity of SMC as a whole is enhanced for the long-term. Given SMC's important role within the Philippine economy, the is likely to have wider positive effects on E&S management of other large infrastructure and manufacturing projects and operations.

## Recommendations

In general, the monitoring process is in line with good industry practices and operating well, and this evaluation has not found major points that need to urgently be addressed. Where there were challenges, the IESC has been actively taking measures to address the issue. Nevertheless, based on the document research, interviews and observations identified, we have identified and formulated two tangible and practical potential actions that could be considered to further sharpen the process.

### For the IESC

1. **Provide a more focused overview of key priority actions for the upcoming quarter as well as feasible milestones.** Given the large number of ESAP items and related actions to be undertaken by SMAI and the amount of time they have to allocate for the monitoring process, it is essential that the SMAI E&S team receives tangible advice and guidance on what to prioritise and focus on next. Based on the monitoring reports and findings during the field visits the IESC does provide advice on E&S action items based on their level of urgency, but is encouraged explore opportunities to further enhance its guidance. This could potentially be done by devoting more time to support in priority setting after the publication of the monitoring report, and by creating a 'living dashboard' on the status and priority of actions that is accessible to all key and relevant actors formally involved in the monitoring process, which could replace the Word-based ESAP progress management.

### For the Lenders' Group

2. **Explore opportunities in legal agreements between involved parties to simplify and reduce the time burden of quarterly reporting without compromising quality.** All parties agree that the monitoring process is a necessary, useful and important in ensuring robust E&S management, but it is time and labour intensive, which paradoxically makes it difficult for the Project Owner to implement E&S actions. One solution is of course to increase the team size of the Project Owner E&S team. However, the monitoring report itself can also be streamlined. As the IESC is required to issue reliance letters for the monitoring reports, it is driven to leave no stone unturned in its analysis, no matter how immaterial. Therefore, exploring relevant agreements and contracts to understand where changes could be made to ease the reporting burden could reduce the time intensity of the monitoring process and increase time spent on implementing actions.



# Appendices

May 26, 2023



## Appendix A: List of consulted parties

Atradius Dutch State Business (ADSB)

Monkey Forest Consulting (MFC)

Earth Active

San Miguel Aerocity Inc. (SMAI)

Koninklijke Boskalis Westminster BV

Ministry of Finance

Ministry of Foreign Affairs

## Appendix B: List of consulted documents

Document	Author	Date
<b>Key Project E&amp;S Documents</b>		
First IESC Monitoring Report	MFC, Earth Active	Dec 2022
Revised Environmental and Social Action Plan (ESAP) 10.6	MFC, Earth Active	Dec 2022
Proposal Memo between IESC and SMAI (Monitoring Contract)	MFC, Earth Active, SMAI	Apr 2022
<b>Other Project E&amp;S Documents</b>		
Lender Audit Close Out Meeting Presentation (Site Visit #2)	MFC, Earth Active	Nov 2022
Final Environmental & Social Due Diligence (ESDD) Report	MFC, Earth Active	Apr 2022
NMIA Non-technical summary (NTS) of the Environmental and Social Impact Assessment (ESIA) report	Mott Macdonald	Apr 2022
<b>Background Documents</b>		
Runaway Risk	Global Witness	Feb 2023
Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence ('Common Approaches')	Organisation for Economic Cooperation and Development (OECD)	2022
Letter of Concern	Consortium of CSOs, including Both Ends, Vogelbescherming Nederland and CARE Philippines	Jul 2021
Equator Principles	Equator Principles	Jul 2020
IFC Performance Standards	International Finance Corporation (IFC)	Jan 2012



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