IFC watchdog calls on agency to revamp how it treats climate emissions

IFC has made climate a central part of its mission, but the way that it measures and manages greenhouse gas emissions in its investments could use work, according to the new report.

By Adva Saldinger // 30 October 2024

IFC typically reports on direct emissions but omits the effects of supply chain emissions. Photo by: Edward Rowland / Alamy

The International Finance Corporation is not properly tracking greenhouse gas emissions, effectively evaluating less polluting alternatives, or putting in place appropriate mitigation measures in some of its projects, according to a report from its independent watchdog released today.

IFC, the World Bank's private sector arm, has an extensive set of rules and frameworks to evaluate the environmental and social impacts of its projects. But the report by the Compliance Ombudsman Advisor, or CAO, found IFC is not always adhering to them and that some of the rules and frameworks used are outdated and need to be amended to match current best practices.

This report comes as the World Bank Group has placed a greater emphasis on climate in its new mission to end poverty on a liveable planet. IFC also says climate action is "central" to its operations, reporting that 43% of its long-term financing went to climate-related projects last year.

The problem outlined by CAO is not about IFC's climate-focused investments specifically, but how it is calculating, evaluating, and addressing greenhouse gas emissions across the variety of projects and sectors it invests in.

"It does not address climate change adaptation or IFC's broader GHG mitigation efforts, including the green financing strategy and alignment of all IFC financing operations with the Paris Agreement goals. CAO acknowledges that these latter efforts are areas of innovation and strength that demonstrate leadership on climate action among development finance institutions," the report stated.

Hazy picture

Still, the fact that IFC isn't accurately capturing the emissions picture across its work means that any climate benefits it is achieving through its increased climate finance might be canceled out by emissions in its portfolio as a whole. If it doesn't properly measure the emissions it is financing, not only is the picture of its carbon footprint opaque, but it can't require its clients to mitigate properly.

For example, IFC typically reports on direct emissions, but it omits the effects of supply chain emissions. So in practice, IFC might disclose the emissions from electricity used in a pig farm, but not the methane emissions from the animals or from producing and transporting their feed, said Jason Weiner, executive director of Bank Climate Advocates. That ends up leaving significant emissions out of the evaluation process and results in potential missed opportunities to find ways to mitigate them.

In fact, CAO found that these supply chain emissions which are not currently counted could account for 70% of total emissions based on the projects it evaluated.

Civil society organizations have been sounding the alarm on these issues for more than a year. After IFC management rejected suggestions in a letter from Bank Climate Advocates, or BCA, and other civil society groups, they requested that CAO do its own analysis of IFC's policies.

The CAO findings validate research that BCA had conducted on its own, on a much larger pool of IFC projects, which tried to put a number on IFC-supported emissions.

Bank Climate Advocates' analysis found that a portion of IFC investments between 2012 and 2023 accounted for more than 168,000,000 tons of avoidable GHG emissions per year — roughly equal to what the Netherlands emits annually. That doesn't include 75 investments where IFC didn't quantify any emissions.

"IFC and member states are disturbingly indifferent to the climate crisis and are not meeting obligations on IFCs own policies," Weiner told Devex. "Investments are fueling more avoidable GHG emissions, adding to the disaster they're supposed to be helping prevent."

But IFC told Devex it has consistently worked to reduce GHG emissions by, for example, stopping upstream oil and gas funding in 2017 and offering support to clients to reduce their carbon emissions.

"Looking ahead, we will continue to improve our knowledge, learn from good practice, and bring our expertise and experience to bear on challenges such as those raised by CAO as we work towards meeting our climate commitments," IFC told Devex.

Key findings

CAO found that IFC's policies need to be updated to align with global best practices and the Paris Climate Agreement, and that IFC needs to consistently implement the policies it has in place.

The first set of issues is around how IFC is quantifying or calculating emissions. One problem is that IFC requires clients to quantify and report their GHG emissions once they reach a threshold of 25,000 metric tons of CO2 per year, whereas industry best practice has a threshold of 10,000 metric tons. That is one change IFC should make, according to CAO.

IFC also only reports net emissions, which makes it hard to see a complete picture. Industry best practice breaks things down more specifically, and the additional information is useful in better managing and reducing emissions.

"If you don't quantify, then you can't tailor mitigation to avoid these emissions where economically and technically feasible. That's why it's important to quantify," Weiner said.

Existing policies require staff to do an alternatives analysis to explore if changes to a project could result in lower emissions, but those changes are only required if it is "cost-effective."

In some cases, such as a natural gas plant in Mozambique that IFC approved in 2021, the alternatives analysis was one paragraph and didn't include information about why they determined alternatives were not feasible, Weiner said. Civil society organizations in the country said that a real analysis would have explored whether solar energy could be used as an alternative and that IFC allowed the client to use data that had outdated cost projections for solar, he added.

The CAO report also identified problems with a particular group of investments — those made to financial intermediaries, such as banks — that made up about half of IFC's portfolio in fiscal year 2023. It pointed out shortcomings in monitoring how those institutions are implementing IFC's performance standards, which they are required to use. The report recommends IFC better supervise and monitor the sub-projects supported by its lending to financial intermediaries.

"It is appalling to hear that IFC is not in a systematic way ensuring that its clients adhere to the full implementation of the performance standards," Christian Donaldson, senior policy adviser for international finance institutions and economic justice at Oxfam International, told Devex.

Some of the recommendations from CAO are that IFC investments limit warming to 1.5 degrees Celsius and that the agency align its performance standards with the Paris Climate Agreement. It should require a "robust" alternatives analysis for all projects, adopt a coherent system for managing GHG emissions, and improve its climate mitigation approach for financial intermediaries.

"If you don't have those things, it's very hard and difficult to have confidence in the overall message of IFC's climate goals," Donaldson said.

Providing clarity

Part of the problem is that some of IFC's policies are more than 10 years old, but it now also has a new World Bank Group climate strategy and new targets and scorecards layered on top of its sustainability framework and standards. This hodgepodge of different approaches could complicate the implementation of various policies.

IFC's new 'responsible exit' policy: Milestone or a missed opportunity?

IFC says it will evaluate development impact, potential for harm, and environmental and social considerations as it looks to leave projects. But will the new approach work?

There is essentially a big disconnect within IFC between the group working on Paris methodology and the group doing environmental and social reviews, Weiner said. One group should be doing both and the board needs to adopt one set of requirements. It may also be that IFC doesn't have all the expertise it needs, he added.

Now it's up to IFC management and its board to determine what action, if any, to take as a result of this advisory report from CAO. That report is meant to inform an expected review of some of IFC's key policies, including its sustainability framework, which has not been updated since 2012. IFC has hinted at, but not yet announced, a formal review of that policy, several sources told Devex.

"It is critical not just for IFC to recognize this, but for the leadership of the bank and the board of directors to actually pay attention to this because they are in a position to ensure and oversee if IFC is accountable," Donaldson said.

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