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Ombudsman says IFC has systematically failed to adhere to its own inadequate greenhouse gas emissions policies

Washington D.C., 30 October, 2024 – The Compliance Advisor Ombudsman (CAO) of the International Finance Corporation (IFC) today issued an advisory opinion highlighting significant misalignments between IFC's current policies and their implementation and the Paris Agreement's 1.5°C climate target.

The report substantiates findings from Bank Climate Advocates' (BCA) and raises questions about the IFC's assertion that 85% of its new investments since July 1, 2023, are aligned with the Paris Agreement, and its commitment to achieve 100% alignment by July 1, 2025.

BCA's audit of 350 IFC investments unveils even more widespread failures by the IFC to adhere to its GHG emissions accounting, alternatives analysis, mitigation, and disclosure requirements prior to its financing decisions for each investment.

Just 233 of the IFC's investments since 2012 account for over 168,000,000 tons of avoidable GHG emissions per year — roughly equivalent to what The Netherlands emits annually, details BCA's data. This does not include 75 investments BCA examined where IFC did not quantify any emissions, nor the significant emissions IFC failed to quantify for each of its investments, including the Scope 3 emissions the CAO opinion found can comprise more than 70% of an investment's carbon footprint.

"The IFC and its member states seem disturbingly indifferent to the climate crisis that's accelerating before our eyes. They're not meeting their obligations—not under IFC's own policies, not under the Paris Agreement, and not under basic international human rights law. Every day they fail to act as obliged, their investments fuel more avoidable GHG emissions, adding to the disaster they're supposed to be helping us prevent," said Jason Weiner of BCA.

"Up to 3.6 billion people are highly vulnerable to climate change, and things will only get worse if we don't radically reduce greenhouse gas emissions. For the IFC, with its vast resources, to choose inaction is nothing less than reckless. IFC must start adhering to its policies now, and take swift action to align them with its legal obligations."

"Bank Climate Advocates' work and the CAO advisory report, shine a light into critical shortcomings of IFC's due diligence to ensure its clients and ultimately IFC meets its own commitments, policies and standards. They contribute greatly to the forthcoming IFC's Sustainability Framework review and update, and IFC's Board should pay attention," said Christian Donaldson of Oxfam.

Notes to editors: Summary of Significant Findings from the CAO Opinion

The CAO found the IFC is failing to implement its inadequate GHG policies in the following ways:

- **For GHG emissions quantification**, the IFC is not ensuring client adherence to the good international industry practice (GIIP) standard in IFC Performance Standard 1, and almost always

impermissibly omitting Scope 3 emissions that "can comprise more than 70 percent of their [investment's] carbon footprint" (only 2 of 16 investments analyzed included Scope 3 emissions). The CAO also found "effectiveness and impact of IFC's climate strategy depends on measuring and mitigating its GHG emissions at the project and institutional levels [but]…[i]n order to mitigate climate change impacts, IFC and its clients must have comprehensive knowledge of and data on project emissions."

- **IFC only required GHG emissions mitigation measures** as provided in its Performance Standards for 6 of 16 high energy projects analyzed, while GHG mitigation was not even analyzed for 5 of these projects.

- **IFC failed to ensure adequate GHG emissions alternative analysis**, as: "critical elements of established [ ] GIIP [required in Performance Standard 1] were missing from 21 of the 27 [analysis] reviewed. Specifically, the clients did not provide a detailed discussion of each alternative presented to IFC or specify proposed GHG mitigation measures to address E&S risks for each alternative…Further, IFC typically considers only GHG-reducing alternatives within the project scope, and not lower-carbon alternatives to projects…In addition, these clients failed to provide a solid justification/rationale for the alternative they chose. *As a result, the alternatives analysis for these IFC investments was limited in its utility to inform decision making on lower-carbon alternatives and the mitigation of project greenhouse gases*."

  IFC is allowing client use of defective mitigation analysis drawing on severely outdated World Bank Group EHG Guidelines mitigation standards from over 15 years ago far out of line with current good practice and technology, resulting in "effective GHG mitigation actions are likely to be left out of environmental plans and agreements."

In regards to the inadequacies of IFC's climate change policies, in addition to establishing IFC's policies do not suffice to align its individual investments and portfolio with 1.5°C, the CAO found:

- "Weak and inconsistent project-level GHG mitigation measures at odds with IFC's efforts to align its operations with Paris Agreement goals;"

- Too limited requirements for client GHG emissions quantification that are "not fit for purpose in meeting IFC's climate goals," and

- The need to "commit to limiting warming to 1.5°C as its overall climate goal… [and] further set targets and define possible approach(es) to achieve that goal."

- The portfolio wide GHG emissions reporting parameters and metrics IFC uses are not complete or consistent with the leading reporting standards, or the widely acknowledged good practice standard for financial institutions. Further, IFC does not report absolute GHG emissions from its portfolio.

Non-Exhaustive Summary of Additional Findings from BCA's Analysis

- The CAO opinion acknowledges that prior to financing decisions, IFC's Access to Info Policy requires it to disclose GHG emissions when estimated over 25,000 tCO2eq over a project's lifecycle. However, the scope and design of the CAO opinion only covers IFC's failures to ensure **its clients'** adherence to the performance standards' higher annual GHG emissions thresholds for quantification. BCA findings demonstrate for 21% of 350 investments analyzed, IFC did not quantify and disclose any GHG emissions when Scope 1, 2, and 3 emissions would clearly exceed 25,000 tCO2eq total.

- BCA's analysis covering over 300 more investments, shows that in addition to 95% of projects omitting Scope 3 emissions, major sources of direct Scope 1 GHG emissions are often not quantified and disclosed. For instance, IFC only ensured disclosure of GHG emissions from the electricity generated from multiple industrial livestock investments, and not the exceptionally high commonly known methane emissions from livestock manure. In addition, for gas pipeline and LNG projects, IFC oft failed ensure client quantification of major emissions from methane and natural gas leakage.

- IFC's Paris Agreement Methodologies do not require IFC align each of its investments with 1.5°C. Rather, they allow IFC to defer to a country's Nationally Determined Contributions (NDCs). But, NDCs will only limit global warming to 2.5 – 2.9°C, and IFC's Paris Methodology allows IFC to finance a fossil fuel project that the IPCC and IEA have shown will cause 1.5°C to be exceeded. Further, IFC's Paris Methodology do not require IFC ensure: assessment of each investment's Scope 1, 2, and 3 GHG emissions; and supported and credible GHG emissions and climate change alternatives analysis that meets a best reasonably available and practiced methods or GIIP standard; public disclosure and review of GHG impact and mitigation assessments: and adoption of measures and alternatives that avoid GHG emissions as far as economically and technically feasible.

About Bank Climate Advocates (BCA): *BCA is an innovative organization helping drive the systemic change in finance needed to avert the worst effects of climate change and help transform the global energy system. Our focus is on aligning the climate change policies and practices of leading public financial institutions (PFIs) with 1.5°C using legal advocacy and action. With such alignment, these PFIs will not only meet their critical share of climate obligations, but the conditions will be created for other public and private banks to follow suit. More about BCA can be found at: www.bankclimateadovactes.org*

Contact information:

Jason Weiner, Executive Director, Bank Climate Advocates, +1 (310) 439-8702, jason@bankclimateadvocates.org

Christian V. Donaldson, Senior Policy Advisor, Oxfam, +1 (860) 639-7362, Christian.Donaldson@oxfam.org