

## **Overview of May 1, 2023 Request to IFC Management for Corrective Action Documenting IFC's Systematic Failures to Adhere to its Policies Applicable to Climate Change**

**Overview:** Bank Climate Advocates (BCA) analyzed over 200 direct investments by the International Finance Corporation (IFC) from 2020-2023, and approximately 300 over the last 10 years. We discovered that in nearly all cases, IFC failed to ensure it adheres to the requirements of its own policies pertaining to greenhouse gas (GHG) emissions quantification, alternatives analysis, mitigation, disclosure and affected communities impact assessment that apply before it approves financing for a project. As such, [BCA and 11 CSOs from the Global South and North submitted a Request to IFC on May 1, 2023](#) extensively documenting its ongoing and continuous failures to address climate change as its policies require. The Request asks IFC to (1) immediately rectify its systematic failures, and (2) take immediate steps to avoid, mitigate, and remedy harms to communities caused by its lack of compliance with its policies' GHG requirements. [IFC Management formally responded](#) on July 7, 2023 (Response) and [BCA along with 13 CSOs submitted a reply to Management's Response](#) on September 1, 2023 (Reply). Management's Response, including its concerning interpretation of its own policies that run contrary to their plain meaning, signals IFC will continue not to meet its policies' requirements applicable to GHGs without intervention.

**IFC Must Take Corrective Action:** The frequency and cumulative magnitude of the IFC's systematic failures, unless prevented and redressed, will cause severe harms to current and future generations and communities all over the world, and especially to those that are vulnerable to the adverse effects of climate change. In addition, corrective action must be accomplished as soon as possible for the IFC to play its part in assuring the 1.5°C warming goal is met, to meet its objectives of coming into alignment with the Paris Agreement and mitigating climate change, to prevent its investments from harming affected communities, and to also ensure it will and can implement its policies as applied to its financial intermediary investments. In addition, proper *implementation* of IFC Board adopted policies is needed to fill gaping holes in the IFC's Paris Methodologies;<sup>1</sup> can prevent fossil fuel projects through instead facilitating the financing of renewable energy infrastructure after adequate alternatives analyses are secured; and can result in complete or substantial avoidance of GHG emissions from most of its investments.

**Summary of the IFC's Systematic Failures to Adhere to its Sustainability Policies:** A summary of these failures can be found on pages 4-7 of the [Request](#), and on the "Analysis Summary" tab of Exhibit 1 to the Request. Detailed analysis of the requirements set forth in the IFC's policies, and each way the IFC is violating them, can be found on pages 8-32 of the [Request](#). To highlight some of the IFC's most problematic failures, contrary to its Policy on Environmental and Social Sustainability and or Access to Information Policy, from 2012 to the present **before the IFC approves financing for a project:**

- **Mitigation Hierarchy Needed to Avoid GHG Emissions as Far as Feasible:** the IFC has failed, and continues to fail, to ensure and secure for approximately 100% of projects, adoption of an adequate (or

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<sup>1</sup> Without implementation of the policies the IFC has in place, application of its Paris Methodology alone would allow for project financing without: a GHG alternatives analysis; quantification and feasible avoidance of substantial GHG emissions, including for "universally aligned" projects such as poultry and swine farming; and consultation and redress for local communities affected by climate change when a project in their geographic proximity emits GHGs.

any) mitigation hierarchy for GHGs as required by its Performance Standards on Environmental and Social Sustainability (PS). PS 1 requires the adoption of mitigation measures to avoid (as a 1<sup>st</sup> priority), minimize, and offset GHG emissions the furthest extent technically and economically feasible. PS 1 provides adoption of a mitigation hierarchy for environmental and social impacts is “central” to the Performance Standards. However, the IFC is not ensuring adoption of a mitigation hierarchy, nor ensuring analysis of (1) the technical and financial feasibility of GHG emissions avoidance measures and (2) scope 1, 2, and 3 GHG emissions needed to inform and support it. Contrary to its positions during an in-person meeting with BCA and many CSOs on April 13<sup>th</sup>, the [IFC’s positions in its July 7<sup>th</sup> response](#) are now that PS 1’s mitigation hierarchy requirements don’t apply to GHG emissions, and moreover, that the environmental and social assessment and mitigation requirements in PS 1 don’t apply to GHGs emissions either – but rather that only the requirements in PS 3 do. IFC Management’s interpretations are contrary to the Performance Standards’ plain meaning. *See* [CSOs’ Sept. 1<sup>st</sup> Reply](#).

- **Quantification of GHG Emissions:** contrary to PS 1’s requirements, IFC has failed and continues to fail to ensure and secure for *all* projects, quantification of GHG emissions that includes all of a project’s clearly recognized and quantifiable scope 1, 2, and 3 GHG emissions over its lifecycle. Also contrary to IFC’s policies, approximately: 21% of projects fail to quantify any GHG emissions, 48% of projects where the project is an expansion fail to quantify GHG emissions from the expansion, over 90% of projects fail to analyze or quantify scope 3 emissions, and over 84% of applicable projects fail to quantify GHG emissions for their construction. The IFC’s failures also preclude it from quantifying and reporting the carbon footprint of its Portfolio despite its means to do so, and as required by its Access to Info Policy adopted 11 years ago. Alarming and contrary to the PS’ plain meaning, [IFC’s July 7<sup>th</sup> response](#) asserts estimates of scope 1, 2, and 3 emissions over a project’s lifecycle are not required prior to project approval – but rather only the annual scope 1 and 2 GHG emissions reporting requirements in PS 3 apply if a project’s emissions will exceed 25,000 tCO<sub>2</sub>/year. *See* [CSOs’ Reply](#). IFC is not even securing full quantification of GHG emissions to determine whether PS 3’s reporting threshold applies.
- **GHG Alternatives Analysis:** contrary to the requirements of PS 1, the IFC has failed and continues to fail to ensure and secure for at least 53% of applicable projects, a GHG emissions alternatives analysis. In addition, over 94% of the GHG alternatives analysis conducted are facially inadequate, as their contents fail to meet the good international industry practice (GIIP) requirement PS 1 requires. **The U.S. National Environmental Policy Act (NEPA) is widely regarded as GIIP for environmental assessments.** [NEPA’s GHG Emissions and Climate Change alternatives analysis requirements](#) contain a plethora of elements,<sup>2</sup> that if performed, provide powerful substantive tools needed to persuade banks and their Directors to abandon financing for proposed carbon intensive fossil fuel projects, and to instead direct financing towards feasible renewable energy infrastructure that can meet a region’s energy demand. It also can significantly reduce GHG emissions from projects the IFC finances in other sectors. Alarming

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<sup>2</sup> These NEPA alternative analysis elements include the following accompanied by analysis/study sufficient to support findings: (1) *comparison of the proposed fossil fuel project to a no project alternative and all renewables with a thorough assessment of the energy demand to be met and whether renewable and other clean energy options could be used to provide this demand*; (2) technical and economic feasibility analysis for renewable energy options; (3) full quantification of scope 1, 2, and 3 GHG emissions for the proposed project over its lifetime in comparison to all renewable options; (4) *for the proposed project and renewable alternatives, best available social cost of GHG estimates with monetary figures of the societal cost from incremental metric ton of GHG emissions including from physical damages (e.g., sea-level rise, infrastructure damage, human health effects, etc.)*; (5) full analysis of mitigation measures to reduce GHG emissions to the greatest extent possible; (6) an explanation of how the proposed action and alternatives would help meet or detract from achieving relevant climate action goals and commitments that looks beyond NDCs to limiting warming to 1.5°C; and (7) analysis, after affected community engagement, to explain the real-world effect, including those that will be experienced locally and disproportionately by vulnerable communities, associated with GHG emissions from the proposed project that contribute to climate change (e.g. sea-level rise, fire, drought, health impacts, etc.).

and inconsistent with its own PS Guidance Notes,<sup>3</sup> [IFC's July 7 response](#) asserts it does not have to ensure NEPA's requirements are met because NEPA is "best" and not "good" international industry practice. See [CSOs' Reply](#). This position also runs afoul of its international legal obligations. See below.

- **Affected Communities Climate Change Impact Analysis, Consultation, and Mitigation:** contrary to the requirements of PS 1, the IFC has failed and continues to fail to ensure for 90% and 100% of projects respectively, analysis and adoption of a mitigation hierarchy for a project's GHG emissions' contribution to global warming impacts on biodiversity and on ecosystem services upon which affected communities' livelihoods are dependent. Also contrary to PS 1, for 97% of its financed projects, the IFC fails to ensure analysis as to whether individuals or groups may be directly and differentially or disproportionately affected by a project's GHG emissions' contribution to global warming because of their disadvantaged or vulnerable status. Perhaps in large part due to these violations, consultation with and mitigation for affected communities to address a project's indirect climate change impacts on them almost never occurs. The [IFC's July 7<sup>th</sup> response](#) fails to address any of these failures.
- **Disclosure:** For approximately 77% of projects, the IFC has violated and continues to violate its Access to Information Policy for its failure to publicly provide GHG Environmental and Social Impact Assessments, and all other documents with GHG emissions and mitigation analysis, for projects. In addition, for almost all of its financed projects, the IFC has violated and continues to violate its Access to Information Policy for failing to publicly disclose a project's expected GHG emissions amounts when these amounts will exceed 25,000 tCO<sub>2</sub> *over a project's life cycle, not just per year* (for 79% of these projects, some of a project's apparent GHG emissions, but not all, are disclosed). Disclosure of GHG emissions and mitigation prior to financing approval also provides the opportunity for public review and input, which is a key element to meeting the GIIP standard PS 1 requires at the assessment stage and critical to ensuring projects the IFC finances adequately quantify and mitigate GHG emissions.

**International Legal Considerations:** The IFC and its member states must adhere to international legal due diligence obligations pertaining to harm prevention and precaution, environmental assessments, and human rights. Because of the severe risk of climate harm posed by funded projects, the IFC and its member states must ensure climate impacts are assessed prior to financing approvals using best reasonably available methods – like those required and performed under NEPA - to quantify GHG emissions, assess their impacts, and to inform alternatives and feasible avoidance and other mitigation measures. Wealthier countries from the Global North have greater diligence obligations than those in the Global South due to the significant resources at their disposal. These resources are also available to the IFC.

**Evidence Methodology:** The data in Exhibit 1 to the [Request](#) that informs and supports the [Request](#), was obtained from review of the Environmental and Social Review Summaries (ESRS) and Summaries of Investment Information (SII) that IFC publicly discloses on its Project Information & Data Portal website for each project it directly finances or its Board considers for financing. To reasonably ensure that all of the assertions and findings in the [Request](#) are sufficiently supported to sound an alarm of IFC non-compliance with its Sustainability Policies, 67 projects the IFC financed from 2012 – 2023 (59 Category A and 8 Category B) were reviewed, where in addition to the SII and ESRS, the environmental impact assessments or documents with similar information and analysis (ESIA) for the project, were also available for download on the IFC Portal. Review of these detailed ESIA documents, confirm the trends and findings derived from the ESRS and SII for each project. These ESIA documents highlight the apparent severe ongoing and continuous frequency and magnitude of the IFC's failures to adhere to its Sustainability Policies.

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<sup>3</sup> IFC's Guidance Notes: Performance Standards, Guidance Note 1 at GN23, 25, 58 at 10-11, 19, 49 (directing readers to the Guidance Note 1 bibliography listing NEPA for further guidance on GIIP (updated June 14, 2021).