July 7, 2023

Bank Climate Advocates
303 Sacramento Street, Floor 2
San Francisco, CA 9411
Attn: Executive Director, Jason Weiner

Dear Mr. Weiner:

Thank you for meeting with us on April 13, 2023, and for your May 1, 2023, letter outlining your assessment of the ways in which the International Finance Corporation (IFC) and its clients adhere to the Sustainability Framework in relation to greenhouse gas (GHG) emissions in the projects that IFC finances. Please find below our responses to the key points raised in your letter.

Climate Investments

IFC shares the strong commitment of Bank Climate Advocates (BCA) and the co-signatory civil society organizations to mitigating and responding to climate change. IFC is committed to help emerging markets mobilize the necessary private capital to decarbonize economies and adapt to a warming planet. Our investments reflect this: IFC's climate investments have increased steadily over the past 10 years as a percentage of our total financing and our latest pledge, as part of the World Bank Group's Climate Change Action Plan (CCAP), is to achieve an average of 35 percent climate financing from 2021 until 2025. We are pleased to share that we have surpassed the goal this fiscal year by a substantial margin.

Paris Alignment

Starting July 1, 2023, IFC pledged under the CCAP that 85 percent of all new investments in all sectors will be aligned with the Paris Agreement's goals, and 100 percent will be aligned starting July 1, 2025.[1] This new effort involves assessing each investment to confirm our financing to the project or company is consistent with pathways toward low-carbon and climate-resilient development. The assessment takes into account the local and sector context, country commitments under the Paris Agreement, and client capacity by considering options which are commercially available and technically and financially viable. This approach respects the 'common but differentiated responsibilities' enshrined in the Paris Agreement.

IFC also assesses the climate-related risks faced by the project or company, as well as options to address those risks if they are material. Our ambition and approach to Paris Alignment goes beyond, and is separate from, our client engagement regarding climate aspects under the Sustainability Framework, which seems to be the focus of your research. It is based on the Joint MDB Framework on Paris Alignment that has been developed jointly with eight other multilateral development banks (MDBs) and is at the heart of our efforts to accelerate an inclusive transition. The approach is well ahead of the practice of commercial investors operating in the same markets as IFC.

We have benefitted from productive discussions with the CSO community on the Paris Alignment approach as we begin to implement. What has become evident in the early stages of the roll-out is that our client countries and private sectors players often do not have the capacity to either design or implement

[1] https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/paris-alignment-at-ifc

Paris Alignment approaches to projects. Given this context, IFC will initially focus on building the capacity of clients and helping them to develop approaches to Paris Alignment.

Disclosing GHG Emissions

IFC is also focused on supporting the private sector in assessing, setting targets, and disclosing GHG emissions through capacity building, and knowledge sharing. For example, in May 2023, IFC published the *Climate Governance Progression Matrix*, a tool to assist Boards of Directors in identifying and overseeing climate-related risks and opportunities.[2] In March 2023, IFC published a Technical Guidance Note for Financial Institutions outlining publicly available sources concerning GHG methodologies and tools.

We acknowledge and appreciate BCA's extensive review of our disclosure of project information that is relevant to GHG emissions over the last 10 years. The review accelerated and complemented an internal review of investment project GHG disclosure practices and related quality assurance. As a result, we have put in place and disseminated to our project teams improved protocols and processes for disclosure quality assurance.

Sustainability Framework

With respect to your claims regarding IFC's adherence to our Sustainability Framework and the **important work of the Compliance Advisory Ombudsman (CAO)**, **we engage fully in CAO processes, carefully consider any findings of non-compliance, and take action in response to lessons learned.** Your letter states that CAO accepting complaints for at least 13 of the projects you assessed is "indicative of the IFC's overall failure to adhere to its environmental and social impact procedural safeguards beyond those applicable to GHG emissions."[3] However, IFC receives complaints for only a small percentage of the projects it finances, and CAO finds non-compliance only after a full compliance investigation and in an even smaller subset of cases. For example, some of the projects you highlighted were resolved successfully through the CAO's dispute resolution function and others were dropped by CAO due to no findings of non-compliance.

GHG accounting in general is an evolving space with significant evolution still occurring on measurement, tracking and attribution. The potential environmental impacts associated with the emission of GHGs are considered to be among the most complex to predict and mitigate due to their global nature. While our clients are bound to the implementation of Performance Standards (PSs) which provide a framework for *good* international industry practice, we are aware of, and are following with interest, emerging *best* international practices on this issue, including, as you note, the recent interim guidance issued by the National Environmental Policy Act (NEPA) in the United States.

With respect to the Performance Standards (PSs), specifically PS1 (Assessment and Management of E&S Risks and Impacts), we do not share your interpretation regarding expectations for our clients' GHG emissions quantification, impact analysis, and mitigation requirements and, specifically, do not share your expansive interpretation of requirements to apply the mitigation hierarchy to GHG emissions under PS1. The PSs establish a foundation for the assessment of project-related GHG emissions under PS3 (For projects that are expected to or currently produce more than 25,000 tonnes of CO2-equivalent annually, clients are required to quantify direct GHG emissions from the facilities owned or controlled within the physical project boundary, as well as indirect GHG emissions associated with the off-site production of energy used by the project).

[2]https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/resources/toolkits+and+manuals/publications_climate-governance-matrix-tip-sheet
[3] Letter from BCA dated May 1, 2023, page 4.

Continued Engagement

Please know that this work is the focus of significant effort and resources at IFC as we have prepared to operationalize Paris Alignment across all our investments, with methodologies developed and published, staff trained, and systems developed. There is of course much more to be done as we roll this out to our clients. We appreciate BCA's mission to improve financial institutions' GHG assessment and mitigation requirements for projects they finance and your interest in our climate change financing policies and practices. We welcome your continued engagement and suggestions as we move forward in our ambitions for Paris Alignment and strive to accelerate an inclusive transition, recognizing the common but differentiated responsibilities across our shareholders and balancing our role as a development bank seeking to catalyze low-carbon, inclusive and resilient private sector development. We hope we can continue the constructive discussions we had in April on these issues and welcome a further meeting.

Sincerely,

Jamie Fergusson,

Director, Climate Business, IFC

Paolo Lombardo,

Acting Director, ESG Sustainability Advice & Solutions, IFC

Nessim Ahmad,

Senior Director, Environment and Social Policy and Risk, IFC

cc:
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