

The background of the entire page is a photograph of an industrial facility at sunset. Several tall smokestacks are visible, with thick plumes of dark smoke rising into the sky. The sun is low on the horizon, creating a bright orange and yellow glow that illuminates the scene. The sky is filled with soft, wispy clouds. The overall atmosphere is one of industrial activity and environmental impact.

Strengthening Greenhouse Gas Mitigation in IFC-financed Projects

CAO Insights Series to
Inform IFC's Sustainability
Framework Review

CAO  COMPLIANCE
ADVISOR
OMBUDSMAN

The Independent Accountability Mechanism for IFC & MIGA

Advisory Note

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This Advisory Note is part of a series prepared by the Office of the Compliance Advisor Ombudsman (CAO) in order to support the IFC/MIGA's review of the 2012 Sustainability Framework. The report draws on CAO cases and other IFC investments from the past 6 years.

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1. About this Note



This Note has been developed as part of CAO's input to the anticipated review and revision of IFC's Sustainability Framework.¹ Its purpose is to identify areas for strengthening IFC's approach and practices to mitigate² greenhouse gas (GHG) emissions, in relation to both IFC's current approach and the planned update of IFC's Sustainability Policy and Performance Standards, which together make up the Sustainability Framework.

The climate crisis has become a “front and center” issue for public and private institutions. The effects of exponential emissions of GHG on ecosystems and people worldwide are already being documented. The loss of sea ice, melting glaciers and ice sheets, sea level rise, and more intense heatwaves, storms, and fires are all leading to increased disease, fatalities, and biodiversity loss. Unless GHG emissions are reduced, there will be more climate extremes and widespread damaging effects across the planet, exacerbating poverty and inequality.³ The World Health Organization (2023) conservatively projects 250,000 additional annual deaths by the 2030s due to climate change impacts.⁴

The President of the World Bank Group (WBG), Ajay Banga, has stressed that a “sense of urgency is our only savior”⁵ if humanity is to contain the threat posed by global warming. The WBG's

new mission to “end extreme poverty and boost shared prosperity on a livable planet” reflects its commitment to meeting global climate goals. In response, IFC, the world's largest development finance institution focused on the private sector, has made climate change a priority issue,⁶ with climate finance now representing almost half its portfolio.⁷ From July 1, 2025, IFC has committed to align 100 percent of its investments with the goals of the Paris Agreement.⁸

As the climate crisis is fueled by increased levels of greenhouse gas emissions, this Note is focused on the reduction of GHG emissions. The Note explores how IFC's efforts toward reduction of global GHG emissions should be informed by evolving scientific understanding, public and private sector goals and activity, and expectations of what actors, including development finance institutions (DFIs), should be

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- 1 This note has been prepared by CAO's Advisory function. It draws on experience gained through CAO's dispute resolution and compliance work, which seeks to enhance the environmental and social outcomes of IFC/MIGA investments and reduce the risk of harm to people and the environment. See IFC/MIGA Independent Accountability Mechanism (CAO) Policy at <https://www.cao-ombudsman.org/policies-guidelines>, para. 7 page 1 for a description of CAO's mandate and para. 148, p 27 for Advisory's approach.
 - 2 While an important topic, this note does not address IFC's work on climate adaptation, resilience, and just transition, nor IFC's support for climate solutions under the rubric of “climate finance.”
 - 3 In its sixth Assessment Report (2023), the IPCC warns that extreme heat, sea level rise, drought, and loss of habitats and coral reefs will have devastating consequences for water supplies, livelihoods, nutrition, and infrastructure. Unless global GHG emissions are significantly reduced in the short term, and effectively eliminated by 2050, these dire environmental, economic, and social consequences will be felt around the world, most heavily on the poor and marginalized. See also IPCC, 2018. Summary for Policymakers: Global Warming of 1.5°C. An IPCC Special Report; https://www.ipcc.ch/site/assets/uploads/sites/2/2022/06/SPM_version_report_LR.pdf
 - 4 See World Health Organization, Climate Change Key Facts (2023): <https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health#:~:text=Between%202030%20and%202050%2C%20climate,diarrhoea%20and%20heat%20stress%20alone>.
 - 5 Ajay Banga, January 16 address during The World Economic Forum Annual Meeting 2024, Davos. <https://www.weforum.org/agenda/2024/01/davos-2024-highlights-ai-growth-climate-security/#4.-urgency-is-our-only-saviour->
 - 6 <https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2023/Final%20Updated%20Evolution%20Paper%20DC2023-0003.pdf>
 - 7 IFC Annual Report 2023, p. 58.
 - 8 By July 1, 2023, IFC reported that it aligned 85 percent of its investments with the goals of the Paris Agreement: <https://www.ifc.org/en/what-we-do/sector-expertise/climate-business/paris-alignment-at-ifc>.

delivering and reporting. Several key trends are of particular relevance to IFC and other DFIs as they plan and execute their climate efforts going forward.

First, there is broad consensus that humanity must strive to limit temperature rise at or below 1.5 degrees Celsius.^{9,10} This target and associated decarbonization pathways have become benchmarks for assessing the ambition of global, national, subnational, and private sector mitigation efforts. For IFC, they can provide concrete, science-based reference points for working toward the World Bank Group's objective of a "livable planet."¹¹

Second, voluntary initiatives have been raising expectations and good practice standards and targets for climate action among private sector actors, institutional investors, and commercial banks.^{12, 13} These include the UN Climate Champions' Race to Zero campaign,¹⁴ the Science-Based Targets Initiative (SBTi), and the Glasgow Financial Alliance for Net Zero (GFANZ). At the same time, national regulators in jurisdictions ranging from the US to the EU to Singapore are updating legal requirements for quantification and disclosure by companies, based on these standards. As a result, in more mature emerging markets the requirements in IFC's Performance Standards are less stringent than some companies' existing climate mitigation and

disclosure frameworks, including those of current and potential IFC investees.¹⁵

Third, opinions and decisions made by international courts and tribunals are clarifying the obligations of states, and potentially of international organizations such as DFIs, to address climate change under international law.¹⁶ These cases draw on the latest climate science and treaties as well as declarations and principles related to human rights, climate change, the environment, national sovereignty, due diligence, harm prevention, and intergenerational equity.

By recognizing and integrating these key trends into its climate efforts moving forward, IFC can position its financing to most effectively address climate change, while strengthening the additionality it offers for clients in emerging markets.

Methodology

IFC's current approach to climate change at the strategy and project levels is enshrined in several strategies, policies, and guidelines, described in Section 2 of this Note. In the subsequent sections, CAO analyzes the relevant aspects of IFC's Sustainability Policy (2012) and the related

9 IPCC, 2018: Summary for Policymakers, Global Warming of 1.5°C. An IPCC Special Report, https://www.ipcc.ch/site/assets/uploads/sites/2/2022/06/SPM_version_report_LR.pdf

10 IPCC 2018, p. 24. Net zero is achieved when anthropogenic emissions are balanced globally by anthropogenic removals over a specified period.

11 The World Bank Group has already begun to equate the goal of "net zero by 2050" with its mission to preserve a livable planet. See, World Bank 2024. Recipe for a Livable Planet: Achieving Net Zero Emissions in the Agrifood System, <https://live.worldbank.org/en/event/2024/recipe-for-a-livable-planet-net-zero-emissions-in-agriculture-and-food#:~:text=One%20central%20challenge%20being%20lack,in%20the%20sector%20by%202050>.

12 Thousands of companies and other non-state actors have set net zero targets through initiatives such as the U.N. Climate Champions' "Race to Zero" campaign and the Science Based Targets Initiative (SBTi). Hundreds of asset managers and other financial institutions have made this commitment through the U.N.'s Glasgow Financial Alliance for Net Zero (GFANZ), including over 130 banks with about \$75 trillion in assets under management.

13 <https://sbti-dev.org/resources/files/Net-Zero-Standard.pdf>; <https://www.gfanzero.com/our-work/>

14 <https://racetozero.unfccc.int/system/race-to-zero/>

15 See footnote 12 for frameworks that some companies and investors are adopting. The World Benchmarking Alliance ranked IFC fourth among development finance institutions in its latest assessment of financial institutions' performance on governance, planetary boundaries, and human rights and social issues, after EIB, ADB and FMO, scoring a total of 27.8 out of 100 possible points. IFC's score and ranking is also well below that of the top eight insurers and six asset managers: <https://www.worldbenchmarkingalliance.org/publication/financial-system/rankings/segment/development-finance-institutions/>

16 A recent decision by the European Court of Human Rights and climate change-related cases pending before the International Court of Justice, the International Tribunal for the Law of the Sea, and the Inter-American Court of Human Rights all consider the legal responsibility of states for treaties, declarations, and principles related to human rights, climate change, the environment, national sovereignty, due diligence, harm prevention, and intergenerational equity. The ICJ has already opined that international organizations may have obligations under international law, and that states carry their obligations with them when they act through international organizations. It is important to note also that IFC requires clients to comply with host country laws, including its obligations under international law (PS1, Overview, para. 5).

Performance Standards¹⁷ and EHS Guidelines, and suggests ways that IFC can update and strengthen its approach to reduce and disclose the GHG-related impacts and risks of its investments, to achieve its climate goals under the Sustainability Framework and the WBG Climate Change Action Plan.¹⁸ A summary of CAO's key takeaways for IFC, based on this analysis, is provided in Box 2.

This Note focuses on IFC's GHG quantification, mitigation, and disclosure under the IFC Sustainability Policy and the Performance Standards (PS), as applied to investment projects. 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.¹⁹ CAO acknowledges that these latter efforts are areas of innovation and strength that demonstrate leadership on climate action among development finance institutions.

In analyzing how IFC is implementing its requirements relevant to the quantification, mitigation, and disclosure of GHG emissions, CAO assessed a range of IFC projects and CAO

complaints with potential climate-related impacts (see Box 1). CAO also surveyed good international industry practice (GIIP), as IFC's Sustainability Policy and PS both refer to GIIP in measuring and addressing GHG mitigation. The final section of this Note presents recommendations to IFC, based on CAO's research, for an updated approach to GHGs for both the Sustainability Framework and its evolving climate strategy, in line with good international industry practice.

To inform this research and its findings, CAO reviewed all complaints it has received since the IFC Performance Standards update in 2012 and identified those that raised climate-related concerns. Among relevant cases, complainants cited issues including air pollution, deforestation, and damage to local ecosystems.²⁰ Several complainants linked their climate concerns with issues regarding IFC's environmental due diligence and the disclosure of information on possible climate change impacts.²¹ Emissions of GHGs were a specific concern in two cases where CAO compliance investigations²² found that IFC did not assure itself that the client's GHG mitigation efforts met the Performance Standards.

17 The 2012 Sustainability Policy articulates IFC commitments to low carbon growth and climate change. It sets out some basic requirements: to minimize its business activities related to impacts on ecosystem services that contribute to climate change mitigation through the quantification, management, and reporting on the carbon footprint of its direct investment portfolio in accordance with the emerging state of practice on accounting and reporting; and ensure its clients meet relevant requirements under its Performance Standards (PS1, PS3, and PS5). The project-level requirements address climate change through impact assessment and alternatives analysis, inclusion of GHG emissions in client reporting to IFC, prioritization of energy efficiency, and protection of ecosystem services involved in climate regulation.

18 The WBG Climate Change Action Plan (2021-2025) aims to increase climate finance to reduce emissions, strengthen climate change adaptation, and align financial flows with the goals of the Paris Agreement.

19 The Paris Agreement includes the goal, in Article 2.1(c), of "making finance flows consistent with a pathway toward low greenhouse gas (GHG) emissions and climate-resilient development." According to the WBG, Paris Alignment (PA) means that the financing and guarantees support provided by the WBG will be consistent with PA objectives and a country's pathway toward low GHG emissions and climate-resilient development.

20 It is important to note that the CAO Policy (and the previous Operational Guidelines) do not provide for the submission of complaints that focus exclusively on global impacts on a global public good. See CAO Policy, para 42(g).

21 See Alto Maipo: CAO Compliance Investigation Report (IFC Project #31632) https://www.cao-ombudsman.org/sites/default/files/downloads/CAOComplianceInvestigation_AltoMaipo_Chile_Final_000.pdf

22 Rizal Banking Corporation <https://www.cao-ombudsman.org/cases/philippines-rizal-commercial-banking-corporation-rcbc-01>

Box 1. Research Approach

Research question: How does IFC treat GHG emissions in projects it finances? How are these GHG emissions quantified, mitigated, and reported on?

Qualitative research approach and methodology

1. **Review of IFC and client commitments and requirements** regarding GHG emissions reduction or mitigation. CAO conducted an in-depth analysis of IFC policies, standards, guidance notes, and other related documents with regard to GHG reduction, quantification, and disclosure in IFC projects.

2. **Analysis of IFC-financed projects** to see whether and how IFC implemented these commitments and requirements, both on its own and working with its clients. Forty projects were reviewed for this purpose, composed of: relevant IFC projects subject to a CAO complaint, high-energy-use projects, IFC projects that employ good international industry practice (GIIP), and innovative approaches to GHG quantification and mitigation. *

3. **Review of good international industry practices** related to climate change/GHG mitigation and disclosure. The research identified voluntary initiatives and regulations enabling private sector actors to eliminate, quantify, and disclose their GHG emissions and compared these requirements with the thresholds, mitigation, and reporting requirements that IFC applies to its investee companies. In addition, CAO researched how IFC reports on emissions in its portfolio and compared this with GIIP.

See Annex 1 for more details of the methodology.

*CAO reviewed subsamples of these 40 projects in order to analyze each specific issue/topic (see Annex 1).

Box 2. CAO Key Takeaways for Strengthening IFC's Contribution to Greenhouse Gas Reduction

The key takeaways below are drawn from CAO's full list of recommendations to IFC regarding its climate goal, strategy, and policies; project-level emissions management; and quantification and disclosure of GHG emissions. For more detail, see Section 4.

- **Key Takeaway 1:** IFC should commit to limiting warming to 1.5°C as its overall climate goal, and ensure complete integration of PA into the updated Performance Standards.
- **Key Takeaway 2:** IFC should adopt a robust and coherent system for applying its "mitigation hierarchy" to managing GHG emissions effectively.
- **Key Takeaway 3:** IFC should detail and require a robust alternatives analysis for all projects as a key tool for reducing GHG emissions.
- **Key Takeaway 4:** IFC should align its GHG accounting provisions with voluntary private sector standards and adopt financial institution industry-standardized reporting on GHGs to assist with monitoring progress toward climate goals.
- **Key Takeaway 5:** IFC's climate mitigation approach for financial intermediaries should be adjusted to reflect best practices in management of GHG emissions for FI investments and their subprojects.

2.

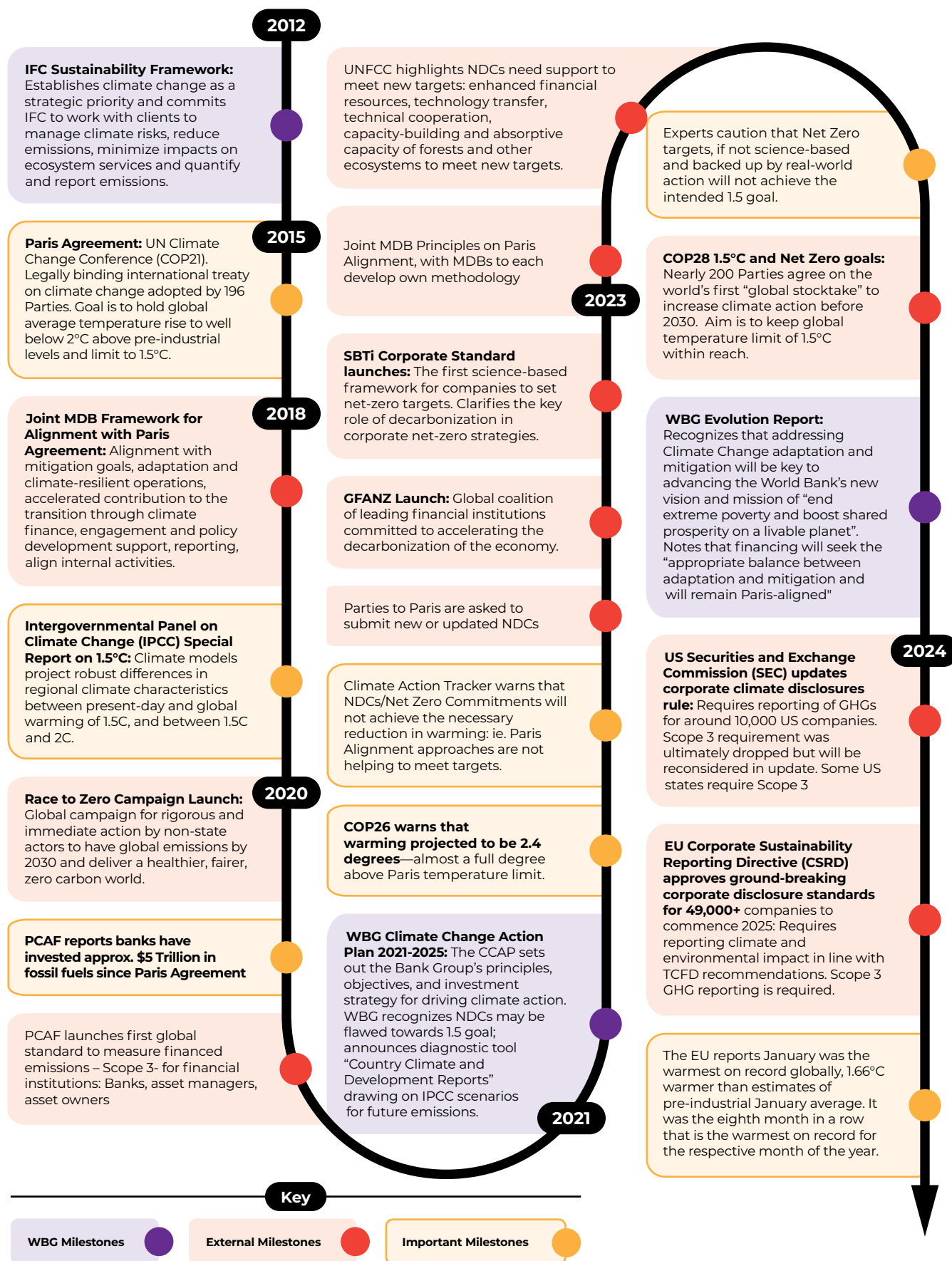
IFC's approach to climate change



IFC's current approach to climate change is enshrined in several strategies, policies, and guidelines. These include IFC's Sustainability Policy, Performance Standards, Environmental Health and Safety Guidelines, and, more recently, the World Bank Group Climate Change Action Plan and Paris Alignment methodologies. These have been developed and updated over the past 15 years as understanding of and approaches to climate change impacts and GHG emissions have evolved. IFC's newer "green climate financing" approach — while not the subject of this Note — is an important and growing part of IFC's portfolio.



Figure 1. Timeline of major IFC and external climate change milestones



Sustainability Framework

IFC's Sustainability Framework includes its Policy and Performance Standards on Environmental and Social Sustainability (Sustainability Policy/ Performance Standards) and its Access to Information Policy. The Sustainability Policy describes IFC's role and responsibilities related to environmental and social (E&S) sustainability, while the Performance Standards set out the requirements clients must meet to identify, avoid, mitigate, and manage E&S risks and impacts. Project-level implementation of the Performance Standards is also supported by IFC's Environmental Health and Safety Guidelines (EHS Guidelines) as well as good international industry practice (GIIP).

IFC's 2012 Sustainability Policy establishes climate change as a "strategic priority" and commits IFC to work with clients to manage climate risks, reduce GHG emissions, minimize impacts on ecosystem services, and quantify and report emissions.²³ Client requirements in these areas are set out in the Performance Standards (PS) on Environmental and Social Assessment (PS1), Resource Efficiency and Pollution Prevention (PS3), and Biodiversity Conservation and Sustainable Management of Living Natural Resources (PS6). IFC includes client actions to meet these requirements, as needed, in project E&S Actions Plans (ESAPs) that are attached to the investment contract and binding on the client. In addition, the Policy obliges IFC to quantify, manage, and report on the emissions of its direct investment portfolio following emerging standards of practice,²⁴ and the Performance Standards also reference meeting good international industry practice.

IFC's EHS Guidelines are technical documents that provide detailed industry-specific guidance to assist clients in managing EHS risks effectively. Their purpose is to define the performance levels and measures that IFC expects of potential clients and their business activity. In project management, the EHS Guidelines direct clients to adopt good practice measures that are generally considered to be "achievable in new facilities at reasonable costs using existing technology."²⁵ General guidelines set out basic principles, standards, and approaches that apply to all projects, and these are complemented by separate sector guidelines.²⁶ However, these guidelines currently have weaknesses that limit their fitness for purpose, including in terms of GHG reduction (see CAO analysis, Section 4).

WBG Climate Change Action Plan (CCAP), 2021-2025

The CCAP sets out the World Bank Group's guiding principles, objectives, and investment strategy for driving climate action and promoting the transition to a more stable climate and resilient world. It seeks to tackle climate change, poverty, and inequality in an integrated manner that enables companies and countries to stay competitive as the world transitions to a net-zero economy. While the CCAP does not have the same obligatory requirements as the Sustainability Policy and the Performance Standards, it does represent a significant commitment for all WB institutions, including IFC.

Recognizing the scale of the climate challenge, the Climate Change Action Plan seeks to shift

23 IFC, Sustainability Policy (2012). Paras. 10-11: "IFC recognizes that climate change is a serious global challenge and that climate-related impacts may impede economic and social well-being and development efforts [...] IFC support for low-carbon economic development is one dimension of a balanced approach to development, including supporting access to modern, clean, and reliable energy services. [...] IFC also recognizes the importance of ecosystem services and their role in climate change mitigation as well as adaptation. It is committed to minimizing business activities-related impacts on areas providing such services."

24 See footnote 23.

25 <https://www.ifc.org/en/insights-reports/2000/general-environmental-health-and-safety-guidelines>

26 The IFC's Environmental, Health, and Safety (EHS) Guidelines complement the Performance Standards by providing detailed technical guidance on managing environmental and social risks and impacts across various sectors. These guidelines cover general aspects like air quality, energy conservation, and waste management, as well as specific industry practices. See <https://www.ifc.org/en/insights-reports/2000/general-environmental-health-and-safety-guidelines>.

WBG efforts from greening projects to greening economies. It focuses investment activity on:

- Integrating climate and development
- Prioritizing transformative investments in high-impact areas, namely: energy; agriculture, food, water, and land; cities; transport; and manufacturing
- Generating finance to support the necessary transitions to a low-carbon global economy.

The WBG recognizes in the CCAP that if country nationally determined contributions (NDCs) and company Net Zero plans do not use science-based approaches and targets, they will not contribute to keeping temperature increases below the 1.5-degree target. As such, it will rely on its own diagnostics to assist with country-level strategies that are Paris Aligned.²⁷ Relevant to IFC investment strategy, the plan notes that the largest GHG mitigation potential lies in energy-intensive and material-conversion industries. It also commits both IFC and MIGA to assess the climate-related drivers in potential projects. These drivers include energy sources and climate-friendly alternatives, materials used and alternatives, products generated and alternatives, and process technology, with a view to achieving best-in-class production processes. CCAP also commits the WBG to develop metrics that better capture the results of its climate actions, including GHG reduction.²⁸

IFC relies heavily on the effective application of relevant requirements in its Sustainability Framework to pursue the goals and targets outlined in the CCAP. The framework also complements the CCAP in enabling IFC to finance GHG emissions

reduction across its portfolio — for example in high-energy-use sectors — and not simply to finance low-carbon projects. The action plan will be due for an update in 2025, providing an opportunity to further strengthen its provisions and complementarity with the Sustainability Framework.

Paris Alignment

The World Bank Group is one of nine multilateral development banks (MDBs) that committed in 2021 to align their financing with the goals of the Paris Agreement²⁹ and apply common methodologies for assessing alignment through different financing vehicles.³⁰ With regard to transition risks (including mitigation of GHGs), the WBG has committed to only support activities that are consistent with low-carbon and climate-resilient development pathways, the Paris Agreement objectives, and client countries' NDCs, long-term strategies (LTS), or other national climate commitments.³¹

The World Bank Group's Paris Alignment Methodology (PA methodology) entails an integrated vetting approach for screening, managing, and reducing climate risks for both mitigation and adaptation for every investment project. This approach uses publicly disclosed Instrument Methods (World Bank), Sector Notes (World Bank Group), and the joint MDB Paris Alignment Approach, which is directly applicable to IFC's and MIGA's investment/guarantee operations.³² The PA methodology intended to align all WBG financing activities with the Paris Agreement goals of limiting global temperature rise and enhancing climate adaptation and resilience.

27 See "What you need to know about the World Bank Group's 2nd Climate Action Plan" Feature Story, June 22, 2021, available at <https://www.worldbank.org/en/news/feature/2021/06/22/what-you-need-to-know-about-the-world-bank-group-2nd-climate-change-action-plan>.

28 WBG's Climate Change Action Plan (2021-2025) p. iv: "We will also enhance our results orientation by developing metrics, where relevant, that better capture our climate impact, including as measured through GHG emissions reduction."

29 Joint Declaration, "The MDBs' alignment approach to the objectives of the Paris Agreement," available at <https://thedocs.worldbank.org/en/doc/784141543806348331-0020022018/original/JointDeclarationMDBsAlignmentApproachtoParisAgreementCOP24Final.pdf>; "World Bank Group. 2021. World Bank Group Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development, pp. 15-17. World Bank, Washington, DC. <http://hdl.handle.net/10986/35799>.

30 The World Bank Group and Paris Alignment, available at <https://www.worldbank.org/en/publication/paris-alignment>.

31 Climate Change Action Plan (see footnote 28 above), p.15.

32 World Bank Group, Paris Alignment: <https://www.worldbank.org/en/publication/paris-alignment>



IFC committed to aligning 85 percent of new investment projects with the Paris Agreement from July 1, 2023, and achieving 100 percent alignment of these investments by July 1, 2025. It defines its PA approach as follows: *“Paris Alignment assessments are conducted in the context of the Bank Group’s twin goals of ending extreme poverty and promoting shared prosperity. The assessments take into account each country’s pathway towards low greenhouse gas emissions and climate-resilient development and determine whether an activity advances, hinders, or is ‘neutral’ when it comes to achieving progress towards the goals of the Paris Agreement.”*³³

In principle, applying the PA methodology should complement the application of IFC’s Performance Standards. Both the PS and the PA methodology emphasize comprehensive E&S risk assessments. The latter assesses projects for their contributions to GHG reduction and climate resilience, while the former provide a structured approach to managing these risks. However, in practice, the operational linkage in terms of project oversight, particularly risk mitigation, is still developing as IFC mainstreams the PA methodology across the institution. In addition, while implementing the Sustainability Framework is mandatory for IFC and its clients, the PA methodology does not have the status of institutional policy.

33 IFC. Paris Alignment: <https://www.ifc.org/en/what-we-do/sector-expertise/climate-business/paris-alignment-at-ifc>

3.

GHG Quantification, Mitigation, and Disclosure in IFC- financed Projects

The effectiveness and impact of IFC’s climate strategy depends on measuring and mitigating its GHG emissions at the project and institutional levels. IFC’s Sustainability Framework, outlined above, includes requirements and approaches for the quantification, mitigation, and disclosure of GHG emissions. In this section, CAO evaluates the relevant elements of IFC’s policies and Performance Standards, analyzes IFC’s adherence to these requirements, and compares IFC’s approach to recognized good international industry practice (GIIP). To understand and evaluate how IFC’s climate commitments are put into practice at the project level, CAO drew on a sample of 40 higher-risk climate-relevant projects that IFC invested in from FY2012 to FY2024. For how these were chosen, see Appendix 1: Methodology. CAO’s findings based on this analysis of IFC’s current approach are summarized at the end of the section.

3.1 Quantification of GHG emissions

In order to mitigate climate change impacts, IFC and its clients must have comprehensive knowledge of and data on project emissions. Measuring or quantifying emissions provides an emissions baseline, facilitates understanding of the areas of an operation where GHG reductions would be possible, and enables monitoring and evaluation of reduction efforts.

3.1.1 SUSTAINABILITY FRAMEWORK REQUIREMENTS FOR IFC AND CLIENTS

The Sustainability Policy commits IFC to quantify and report on the carbon footprint of its direct investment portfolio “in accordance with the emerging state of practice on accounting and reporting.”³⁴ This entails reporting both at the project and institutional level.

Performance Standard 1 (Assessment and Management of Environmental and Social Risks and Impacts) requires IFC clients to assess all relevant E&S risks and impacts of their projects, including specifically from GHG emissions.³⁵ Additional PS1 requirements relevant to GHG

³⁴ IFC, Sustainability Policy (2012), Par. 11: “Finally, as the practice and tools for GHG accounting are mainstreamed, IFC will require its clients to include GHG emissions in their regular reporting to IFC in accordance with the Performance Standard 3 quantification threshold. This will allow IFC to quantify, manage and report on the carbon footprint of its direct investment portfolio in accordance with the emerging state of practice on accounting and reporting.”

³⁵ “The risks and impacts identification process will consider the emissions of greenhouse gases, the relevant risks associated with a changing climate and the adaptation opportunities,” Performance Standard 1, para. 7; <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>

mitigation include the stipulation that clients conduct a comprehensive Environmental and Social Impact Assessment (ESIA) for greenfield developments or large expansions likely to generate potential significant environmental or social impacts, including exploring alternatives, where appropriate. Other aspects of PS1 are less clear in their applicability to GHGs, but could be interpreted as *including* GHGs as a specific risk.³⁶ However, when looking at the inconsistencies between requirements, it is important to note that IFC states that “The Performance Standards should be read together and cross-referenced as needed.”³⁷ PS1 also makes clear that, during IFC’s pre-investment due diligence of a client and project, the scope of the risks and impacts identification *process should be consistent with good international industry practice*.³⁸ In addition, if specific E&S risks are identified during project due diligence under PS1, other Performance Standards may also apply.

In line with the Sustainability Policy, IFC requires clients to quantify and report their GHG emissions to IFC when they reach a certain threshold. Performance Standard 3 (Resource Efficiency and Pollution Prevention) sets this threshold, requiring investment projects that emit more than 25,000 tCO_{2e}/year to quantify and report on their Scope 1 (operational) and 2 (purchased energy) emissions.³⁹ Clients whose IFC-financed projects do not meet this threshold are not required to quantify the projects’ GHG footprint. More detail on this threshold and how it compares to good practice is provided in Section 3.1.3.

3.1.2 ANALYSIS: IFC AND CLIENT ADHERENCE WITH SUSTAINABILITY FRAMEWORK REQUIREMENTS

CAO assessed 16 real sector projects that IFC invested in from FY2012 to FY2024 to obtain a snapshot of clients’ adherence to the GHG quantification and reporting requirements outlined above. These represented the relevant investments from the 40-project sample used in CAO’s analysis. All 16 projects were assigned risk category A or B by IFC, and all generated emissions over 25,000 tCO_{2e}/year.⁴⁰ Under PS3, clients were therefore required to quantify and report annually to IFC on the projects’ Scope 1 and 2 emissions.⁴¹

In summary, CAO found that most clients (14 of 16) do quantify Scope 1 and 2 emissions in accordance with the IFC requirements *at the outset of the investment*. However, subsequent reporting during the course of the investment is not consistent, with five of the 16 projects recording GHG emissions regularly in their Annual Monitoring Report submitted to IFC as part of its investment supervision.

³⁶ For example, requiring the client to identify the E&S risks and impacts in the project’s “area of influence” including “indirect project impacts on biodiversity and ecosystem services upon which affected communities’ livelihoods are dependent.” The nature and source of the risks and potential impacts to be identified by clients should also be noted, “...and should include primary supply chains.” This stipulation could be interpreted as including a company’s Scope 3 GHG emissions in the identification of project-related risks, potential impacts, and mitigation measures.

³⁷ Cross-referencing of policies, specific stipulations, guidance documentation etc. is a standard and common practice in law to determine the intent behind the text if it could be interpreted ambivalently.

³⁸ PS1, para. 7: “The scope of the risks and impacts identification process will be consistent with good international industry practice.” See: <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standard-1-en.pdf>

³⁹ CAO notes that there is a discrepancy between clients’ reporting requirements to IFC as stated in PS3 and IFC’s disclosure requirements under its AIP. IFC’s AIP pp. 31 (a)(v) requires IFC to disclose, as part of the project’s ESRS, “where greater than 25,000 MT CO₂ equivalent, the expected GHG emissions of the project.”

⁴⁰ Of the project sample of 20, four IFC investments are with financial intermediaries, to which this does not apply.

⁴¹ Analysis conducted by Bank Climate Advocates of IFC’s portfolio notes that despite the availability of methodologies to estimate Scope 1, 2, and 3 emissions for over a decade, IFC is still failing to quantify Scope 3 emissions prior to financing decisions for approximately 95 percent of its investments, and does not quantify GHG emissions at all for approximately 21 percent of projects. See: <https://bankclimateadvocates.org/ifc-campaign>.

Box 3. IFC estimation and disclosure of project-level emissions

IFC applies a systematized approach to disclosing GHG emissions for each project. For projects emitting over 25,000 metric tons of CO₂ equivalent annually, IFC estimates both gross and net emissions and discloses these estimates through the project Environmental and Social Review Summary (ESRS) and IFC's Project Disclosure Portal.

In addition to the PS3 quantification requirement, CAO also evaluated the 16 projects based on the PS1 stipulation that clients disclose information on project risks, impacts, and associated mitigation measures to communities in the project area and other stakeholders.⁴² IFC disclosed the expected annual GHG emissions for 14 of the projects as part of the risk information in the project E&S Review Summary (ESRS). Half of the projects with disclosed emission levels (seven of 14) provided an emissions breakdown. Specifically, three clients provided a breakdown of Scope 1 and Scope 2 emissions, three referred to different sources of emissions without specifying scope, and one stated that the total expected emissions were combined Scope 1 and 2. For the remaining seven projects, clients simply noted the annual GHG emissions total.

Under the Sustainability Framework, the publicly disclosed ESRS for every IFC-financed project should also include any risk management measures (accounting, reporting, and/or mitigation) as part of the GHG emission disclosures.⁴³ CAO's analysis found that 12 of 16 sample investments provided information on planned risk management measures related to GHG emissions in the ESRS. Such measures included implementation of quantification and monitoring programs and the use of fuel-efficient and modern equipment and technologies. However, only three of the 12 investments added details on the expected impacts of those measures (such as reduced emissions). Furthermore, none of the 12 investments disclosed annual reporting on mitigation after project approval.

Table 1. How IFC projects quantify and report their emissions

Total project subsample (met 25,000 tCO _{2e} /year threshold)	16 (of 40)
Projects required to report emissions (ESAP requirement)	9
Projects reporting emissions in AMR to IFC (as indicated in ESAP)	3
Projects reporting emissions in AMR to IFC (no ESAP requirement)	2
Projects not reporting GHG emissions (despite requirement of ESAP)*	6

* In four cases the AMRs state that the project stage is early to account for CO₂ emissions. The remaining two are recent projects with no AMR available yet.

⁴² See PS1 para. 25: <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>

⁴³ Ibid.

3.1.3. ANALYSIS: HOW DOES THE SUSTAINABILITY FRAMEWORK COMPARE WITH GIIP?

The Sustainability Framework commits IFC clients not only to adhere to specific requirements regarding GHGs detailed in the Performance Standards, but also to apply good international industry practice (GIIP) generally in managing an IFC investment. CAO compared IFC's approach for client GHG quantification and reporting to GIIP and then analyzed how clients with projects in the 16-strong sample reported their emissions. It was noted that core elements of the institution's climate-related policies, requirements, and practices under the longstanding Sustainability Framework and EHS Guidelines lag behind market expectations and miss opportunities to better assist investee companies to reduce GHG emissions.⁴⁴

This analysis focused on two important aspects of GIIP related to quantification and reporting: the emissions threshold that triggers annual reporting, and the scope of emissions quantified.

a. Threshold Analysis

Thresholds used by voluntary initiatives vary, but those set by the Science Based Targets Initiative (SBTi) and the Partnership for Carbon Accounting Financials (PCAF) are considered the baseline for good international practice and are lower than the IFC Performance Standard 3 threshold of 25,000

tCO_{2e}/year. SBTi uses a corporate emissions threshold of 10,000 tCO_{2e}/year as the cutoff for its streamlined validation process.^{45, 46} As the global carbon budget available to avoid catastrophic global temperature increases continues to shrink, IFC should consider the value of strengthening GHG quantification requirements in order to better assist clients in managing and mitigating their carbon emissions.

b. Scope Analysis

By only requiring clients to quantify Scope 1 and 2 emissions, IFC falls short of GIIP⁴⁷ standards, which typically also require reporting on Scope 3 value chain emissions. For example, SBTi requires signatory companies whose Scope 3 emissions make up 40 percent or more of the combined Scopes 1, 2, and 3 total to quantify and report their Scope 3 emissions.⁴⁸ For many businesses, Scope 3 emissions can comprise more than 70 percent of their carbon footprint,⁴⁹ and the financial services sector, which comprises many IFC clients, is among those that are Scope-3 heavy. Hence, regulators in some jurisdictions now require Scope 3 quantification and reporting.⁵⁰

Moreover, some IFC clients are already reporting a broader scope of emissions than IFC requires. CAO's analysis found that nearly one third of companies in the overall sample (16/40) already quantify and report on Scopes 1, 2, and 3 emissions in their annual/sustainability reports, but do not report Scope 3 emissions to IFC since it is not an investment

44 See also E3G's assessment of IFC's climate efforts. Green financing is recognized as an area of strength, but mitigation and transparency are identified as weaknesses. <https://www.e3g.org/banks/ifc/>

45 PCAF notes quantification as a required step toward effective GHG reduction approaches. "If financial institutions know the emissions financed by loans and investments, they can better identify and manage risks, navigate emission reduction goals, act to reduce their portfolio climate impact, and disclose progress." PCAF, Dec 2022 (2nd Edition), The Global GHG Accounting and Reporting Standard for the financial industry: <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

46 Two development finance institutions — EBRD and ADB — have proposed using a lower threshold of 20,000 tCO_{2e}/year.

47 Including SBTi, GFANZ, and the Task Force on Climate-related Financial Disclosure

48 Organizations that make a net-zero commitment through the Science Based Targets Initiative must undertake a complete accounting of Scope 3 emissions and eliminate those emissions on a 1.5°C consistent timetable. Similarly, UN Secretary General Guterres' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities concluded that a credible corporate net zero target must include Scope 3 emission reductions. In the financial sector, voluntary initiatives such as GFANZ encourage financial institutions to quantify their Scope 3 (financed) emissions where material. The Task Force on Climate-related Financial Disclosure "strongly encourages" companies to report Scope 3 emissions and their related risks in their ordinary financial filings and the GHG Protocol, which IFC recognizes as the global reference standard for measuring GHG emissions also recommends quantifying and disclosing Scope 3 emissions.

49 <https://ghgprotocol.org/blog/you-too-can-master-value-chain-emissions>. Scope 1 and Scope 2 emissions are from operations, while Scope 3 emissions are from the entire supply chain for those operations.

50 The SEC's new climate corporate reporting requires Scope 3 reporting. The US SEC draft updated climate risk disclosure rule included Scope 3 emissions, but they were not included in the final approved rule due to the capacity of companies to employ sound methodologies and the availability of third parties to conduct quantification. The SEC recognized that Scope 3 emissions comprise the largest portion of carbon emissions and proposed their inclusion in a future update of the rule. In addition, California will start phasing in Scope 3 disclosure and filing in 2027 for public and private companies doing business in the U.S. state.

requirement. For example, one high-GHG-emitting project in the oil and gas sector that CAO reviewed reported Scope 3 emissions of 1.2 million tCO_{2e} during pre-investment due diligence – three times its Scope 1 emissions of 400,000 tCO_{2e}. Yet, while IFC has asked this client to consider further opportunities for mitigation, this remit does not apply to the most GHG-intensive project activities that fall under Scope 3.⁵¹

Of the 16-project subsample, two did quantify Scope 3 annual emissions at the initial stage of the investment of their own volition. Other companies in the subsample noted that while they were not currently reporting on Scope 3 emissions, they planned to do so in 2023 or 2024. Of the full 40-project sample, close to half the IFC investee companies stated that they already published reports aligned with voluntary frameworks such as GRI, TCFD, and IFRS/ISSB, or have set targets using guidance from SBTi.

With more companies adopting these good practice standards, the value-added that IFC can offer clients through the current Performance Standards will be increasingly limited. In particular, by omitting Scope 3 value chain emissions from the quantification requirement, IFC is missing opportunities to help clients reduce the climate impacts of their supply chains and product lifecycles and to create value.⁵²

3.2 Mitigation of GHG emissions

Commitments to “do no harm” to people and the environment and enhance the sustainability of private sector operations and their markets in order to achieve positive development outcomes are core

tenets of IFC’s Sustainability Framework. IFC’s risk mitigation hierarchy is central to performance in meeting these commitments, stating that E&S risks must be identified, avoided, minimized if avoidance is not possible, and, if residual impact occurs, this must be offset or compensated. IFC specifically recognized the importance of addressing climate change and its impacts on development when drafting the current Sustainability Policy in 2012.⁵³ The policy refers to mitigation where it notes that IFC will actively engage with the private sector to support climate-friendly solutions and support clients to mitigate GHG emissions.⁵⁴

3.2.1 SUSTAINABILITY FRAMEWORK REQUIREMENTS FOR IFC AND CLIENTS

The Sustainability Policy commits IFC to the following actions relevant to project-level GHG mitigation:

- Minimize impacts from its business activities on ecosystem services that contribute to climate change mitigation.
- Ensure clients meet relevant mitigation requirements under its Performance Standards (PS1, PS3).

The Performance Standards (PS) provide the framework of objectives and requirements to guide investee companies in managing E&S risks present in IFC-financed projects. They are intended to help avoid, mitigate, and manage such risks and impacts as IFC’s mitigation hierarchy approach to risks stipulates.⁵⁵ IFC is responsible for working with the client to ensure that the project’s IFC finances are executed in accordance with the relevant PS.⁵⁶

51 In the 2023 AMR submitted to IFC, the company only reported Scope 1 emissions, as requested. However, the company’s annual ESG reporting, available on its website, not only includes Scope 3 emissions, but is prepared in accordance with standards recommended by TCFD, CSRD, IPIECA, and the GHG Protocol.

52 McKinsey (2022) “Playing offense to create value in the net-zero transition,” <https://www.mckinsey.com/capabilities/sustainability/our-insights/playing-offense-to-create-value-in-the-net-zero-transition>

53 IFC, Policy on Environmental and Social Sustainability, 2012. <https://www.ifc.org/en/insights-reports/2012/publications-policy-sustainability-2012>

54 Policy on Environmental and Social Sustainability (2012), p. 3, para. 10-11.

55 Policy on Environmental and Social Sustainability, para 6; PS 1 Objectives, para. 14.

56 IFC, Sustainability Policy (2012), Par. 7: “While managing environmental and social risks and impacts in a manner consistent with the Performance Standards is the responsibility of the client, IFC seeks to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards.”

IFC's performance standards address GHG emission reductions principally through risk identification and mitigation, pollution prevention and minimization, and protection of ecosystems that play a role in storing and sequestering carbon.

a. Reducing Emissions

Performance Standard 1 (Assessment and Management of Environmental and Social Risks and Impacts) requires clients to identify risks and set up an effective system for managing the risks.⁵⁷ Central to the management of risks, both by IFC as well as the client, is the application of a "risk mitigation hierarchy", an approach which seeks to avoid or reduce risks⁵⁸ is also key to IFC's project-level approach to GHG mitigation.

Performance Standard 3 (Resource Efficiency and Pollution Prevention) requires IFC clients to "consider alternatives and implement technically and financially feasible and cost-effective options to reduce project-related GHG emissions during the design and operation of the project."⁵⁹ The introduction to the PS3 Guidance Note highlights the threat that GHGs pose to development⁶⁰ and, as detailed above, the standard provides guidance to clients for annually quantifying emissions "in accordance with internationally recognized methodologies and good practice". In addition, PS3 outlines a project-level approach to resource efficiency and pollution prevention and control in line with internationally disseminated technologies and practices. Of the three stated objectives for Performance Standard 3, one is "To reduce project related GHG emissions."⁶¹

In cases where GHG emissions are identified as a risk, PS3 requires that "the client will consider alternatives and implement technically and financially feasible and cost-effective options to reduce project related GHG emissions during the design and operation of the project." In addition, where benchmarking data are available, clients should make a comparison to establish the relative level of efficiency. All these requirements align with the operationalization of IFC's risk mitigation hierarchy in relation to GHG mitigation.⁶²

To meet these commitments in practice at the project level, IFC and its clients have several approaches at their disposal. These include environmental and social impact assessments (ESIAs); incorporating, where relevant, an analysis of alternatives (AoA); and the adoption of technologies that help mitigate project-related GHG emissions. Client adoption of these tools and technologies is explored later in this paper, followed by a comparison of IFC's approach with good industry practice.

b. Protecting Ecosystems

Development finance involves investments in projects that can have a significant impact on ecosystems that store and absorb carbon dioxide from the atmosphere. Terrestrial ecosystems, including wetlands, grasslands, forests, tundra, and seagrass beds, provide a valuable, widely recognized service in the mitigation of GHG emissions, absorbing around 3 billion tons of atmospheric carbon per year (Pg/yr) through net growth (Canadell and Raupach, 2008).⁶³ Conversely, loss of such ecosystems as a result of human activity generates a negative climate impact, with

57 PS1 requires IFC clients to "consider the emissions of greenhouse gases" as part of their risk and impacts identification process (para 7).

58 IFC Policy on Environmental and Social Sustainability, para 6: "Central to these requirements is the application of a mitigation hierarchy to anticipate and avoid adverse impacts on workers, communities, and the environment, or where avoidance is not possible, to minimize, and where residual impacts remain, compensate/offset for the risks and impacts, as appropriate."

59 Performance Standard 3, para 7.

60 There is also a growing global consensus that the current and projected atmospheric concentration of GHGs threatens the public health and welfare of current and future generations.

61 PS3 guidance notes GHGs as another pollutant, For the purpose of this Performance Standard, the term "pollution prevention" does not mean absolute elimination of emissions, but the avoidance at source whenever possible, and, if not possible, then subsequent minimization of pollution to the extent that the Performance Standard objectives are satisfied.

62 <https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-performance-standards.pdf>

63 Ruehr, S., Keenan, T.F., Williams, C. et al. Evidence and attribution of the enhanced land carbon sink. *Nat Rev Earth Environ* 4, 518–534 (2023); <https://doi.org/10.1038/s43017-023-00456-3>

approximately 12 percent of global GHG emissions attributed to deforestation and forest degradation.⁶⁴

The Sustainability Framework commits IFC to minimize impacts from the business activities it finances on areas that provide ecosystem services, including carbon sequestration.⁶⁵ Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) builds on this commitment by requiring clients to avoid impacts on biodiversity and ecosystem services, and to implement project-level measures to minimize impacts and restore biodiversity and ecosystem services. PS6 identifies carbon storage and sequestration and climate regulation among the valuable functions of ecosystem services. However, the standard does not require IFC clients to undertake specific measures to protect the integrity of a project-affected ecosystem's carbon storage and sequestration services.⁶⁶

3.2.2 ANALYSIS: IFC AND CLIENT ADHERENCE WITH SUSTAINABILITY FRAMEWORK REQUIREMENTS

a. Analysis of Alternatives

Many industries and development finance institutions conduct an analysis of alternatives (AoA)⁶⁷ during pre-investment E&S due diligence, to identify cost-effective, time-efficient solutions that can lower or help manage project risks. Under PS1, IFC requires clients to conduct an alternatives analysis for all Category A (high risk) and greenfield projects, and PS3 requires consideration of alternatives during design and operation “to reduce project related GHG emissions.”⁶⁸ A thorough analysis can enable clients to maximize climate mitigation opportunities by assessing all available options for project technology, design, location, and other aspects relevant to achieving the desired development outcome with fewer negative impacts, including GHG emissions. Conversely, the utility of an alternatives analysis can be limited if the scope is narrow, or the client conducts it after the project design has been approved.⁶⁹

For this paper, CAO analyzed relevant sample projects to evaluate how IFC supports GHG mitigation through the use of alternatives analysis.

⁶⁴ <https://blogs.worldbank.org/en/voices/forests-healthy-people-economies-and-ecosystems>

⁶⁵ See for example, IFC Policy on Environmental and Social Sustainability, para 11: “IFC also recognizes the importance of ecosystem services and their role in climate change mitigation as well as adaptation. It is committed to minimizing business activities-related impacts on areas providing such services” and para 9, “IFC is committed to ensuring that ...the environment is not degraded in the process, and that renewable natural resources are managed sustainably.”

⁶⁶ PS6 establishes “priority ecosystems” as: “(i) those services on which project operations are most likely to have an impact and, therefore, which result in adverse impacts to Affected Communities; and/or (ii) those services on which the project is directly dependent for its operations (e.g., water, (para 24).). It further states that: “With respect to impacts on priority ecosystem services of relevance to Affected Communities and where the client has direct management control or significant influence over such ecosystem services, adverse impacts should be avoided. If these impacts are unavoidable, the client will minimize them and implement mitigation measures that aim to maintain the value and functionality of priority services.”)

⁶⁷ Also known as an alternatives analysis or alternatives assessment.

⁶⁸ IFC, Guidance Note 1, para. GN25: “The purpose of the alternatives analysis is to improve decisions on project design, construction, and operation based on feasible alternatives to the proposed project. This analysis may facilitate the consideration of environmental and social criteria at the early stages of development and decision making based on the differences between real choices. The alternatives analysis should be conducted as early as possible in the process and examine feasible alternatives; alternative project locations, designs, or operational processes; or alternative ways of dealing with environmental and social impacts.” IFC, Performance Standard 3, para. 7: “In addition to the resource efficiency measures described above, the client will consider alternatives and implement technically and financially feasible and cost-effective options to reduce project related GHG emissions during the design and operation of the project. These options may include, but are not limited to, alternative project locations, adoption of renewable or low carbon energy sources, sustainable agricultural, forestry and livestock management practices, the reduction of fugitive emissions and gas flaring.”

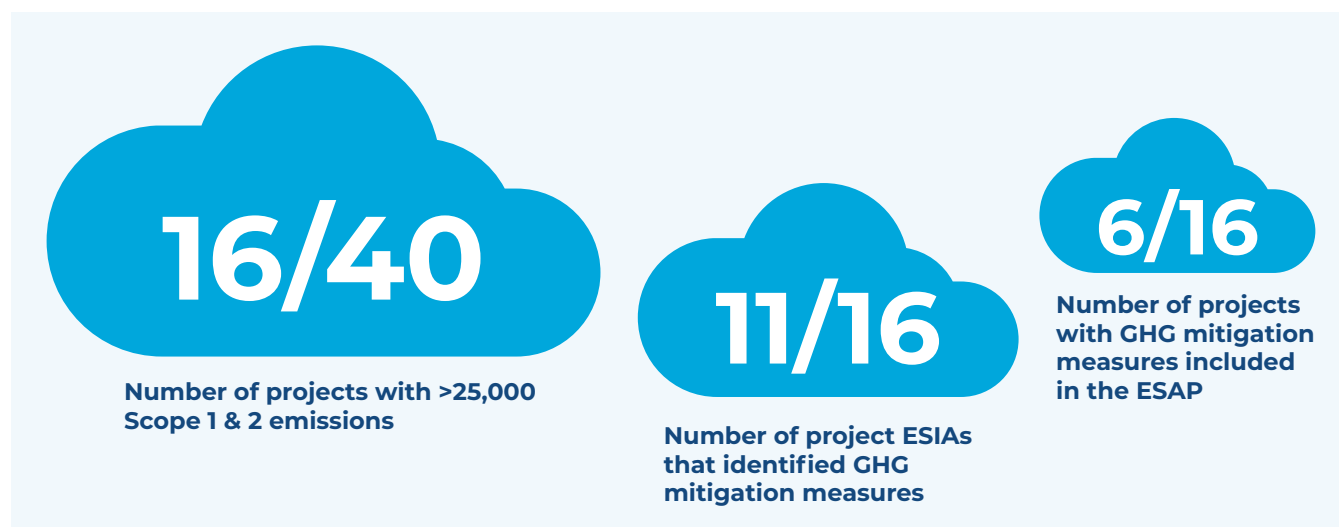
⁶⁹ IFC’s PS1 Guidance Note states: “The alternatives analysis should be conducted as early as possible in the process and examine feasible alternatives; alternative project locations, designs, or operational processes; or alternative ways of dealing with environmental and social impacts...”

As noted above, Performance Standard 1's criteria and implementation guidelines require an analysis of alternatives for some but not all projects,⁷⁰ while Performance Standard 3 provides some parameters for clients to conduct an AoA to reduce GHG emissions for relevant projects.⁷¹

CAO reviewed 35 IFC investments⁷² from the 40-project sample that met these criteria and therefore required an AoA prior to approval for financing. Of these 35 projects, clients conducted an analysis of alternatives in 27 cases, all as part of IFC pre-investment E&S Impact Assessments.⁷³ Most clients followed IFC guidance in including specific elements such as a "no-project" option, evaluation of alternative locations and operational processes, and some discussion of alternative technologies and designs.

CAO then assessed a subsample of 16 real sector projects that IFC invested in from FY2012 to FY2024, to evaluate the alternatives analysis in more detail and see if elements were translated into requirements for the client⁷⁴ in the binding project Environmental and Social Action Plan (ESAP).⁷⁵ This analysis revealed that while the ESAs for 11 of these 16 projects identified GHG mitigation measures, only six projects included related client mitigation measures and cost estimates in the ESAP. When GHG mitigation measures are identified but not included in a project ESAP, it is challenging for IFC to monitor whether those measures are implemented and ensure that the client company is accountable for implementation. This results in a missed opportunity, highlighted by CAO's finding that 10 of 16 ESAPs for high-energy-use projects did not include any GHG mitigation measures.

Figure 2. Sample projects with identified GHG emissions mitigation measures.



⁷⁰ PS1, fn11, notes: "For greenfield developments or large expansions with specifically identified physical elements, aspects, and facilities that are likely to generate potential significant environmental or social impacts, the client will conduct a comprehensive Environmental and Social Impact Assessment, including an examination of alternatives, where appropriate."

⁷¹ PS3 requires the client to "consider alternatives and implement technically and financially feasible and cost-effective options to reduce project-related GHG emissions during the design and operation of the project. These options may include, but are not limited to, alternative project locations, adoption of renewable or low carbon energy sources, sustainable agricultural, forestry and livestock management practices, the reduction of fugitive emissions and the reduction of gas flaring."

⁷² To conduct this analysis, CAO evaluated the Environmental and Social Impact Assessments (ESAs) and/or any other relevant documentation containing an AoA for the sample projects against two criteria: 1) what is required under the EHS guidelines and PS1 guidance and 2) what is established as GIIP.

⁷³ ESAs, according to the Access to Information Policy, must be disclosed publicly.

⁷⁴ All these projects were assigned risk category A or B by IFC, all generated emissions over 25,000 tCO_{2e}/year and all are high-energy-use projects involving clients in the manufacturing, oil and gas, mining, agribusiness, and infrastructure sectors. Given that the projects met the 25,000 tCO_{2e}/year threshold, clients were required to quantify and report annually to IFC on the projects' GHG emissions.

⁷⁵ The purpose of the ESAP is to provide the client company with a detailed and costed plan for each action it needs to undertake to comply with the relevant Performance Standards. The ESAP is part of the legal documentation for the investment and a means for IFC to monitor client progress toward compliance with the required actions.

b. Identification of Fuel-efficient Technologies

Alternatives analysis can also help IFC and its clients deliver on its Sustainability Policy commitments to facilitate adoption of cleaner and more efficient technologies and processes. Sectors including utilities, manufacturing, cement, steel, chemicals, oil and gas, and mining generate significant Scope 1 emissions, and reducing such emissions often focuses on fuel efficiency at client operations.⁷⁶ Well-established mitigation measures include using alternative/non-fossil fuels, employing precombustion methods, burning fuels more efficiently, or introducing efficient processes or more energy-efficient equipment.

However, a significant challenge to the adoption of new technologies is that the Performance Standards require alternatives to be evaluated for “cost effectiveness,” which involves a calculation of Risk Adjusted Rate of Return, which can discourage or prevent the application of alternative technologies that can effectively reduce GHG emissions. The adoption of newer technology can be expensive, especially for smaller IFC clients and in markets where its availability and existing use is limited.

The World Bank Group, among others, has argued for the subsidization of technologies in lower-capacity emerging markets as part of a just transition to a low-carbon world. CAO’s research for this paper identified a project that underscores the need for such an approach. In this case, IFC industry specialists encouraged the client to apply new technology to improve fuel efficiency, but since IFC’s loan would not

cover the technology’s purchase, its adoption was not a required action in the project E&S Action Plan.

3.2.3 ANALYSIS: HOW DOES THE SUSTAINABILITY FRAMEWORK COMPARE WITH GIIP?

Both alternatives analysis and mitigation technologies are widely established practices among industries and development finance institutions. Below, CAO explores how IFC’s approach compares with good practice (see Box 4).

a. Analysis of Alternatives

As described above, CAO identified 27 projects where clients conducted an analysis of alternatives as part of E&S Impact Assessments during IFC’s pre-investment due diligence phase. An analysis of these clients’ approaches found that critical elements of established good international industry practice (GIIP) were missing from 21 of the 27 AoAs reviewed.⁷⁷ 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. In addition, these clients failed to provide a solid justification/rationale for the alternative they chose.⁷⁸ 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.

⁷⁶ Scope 2 emission mitigation may present fewer opportunities in emerging markets. Scope 3 value chain emissions offer companies many opportunities for mitigation, despite ongoing challenges with regard to quantification methodologies and the availability of data. IFC should nevertheless start by using data that is available and include a description of challenges and a rating of data reliability in the quantification disclosures, as PCAF advises investors to do in acknowledging these challenges.

⁷⁷ Six of the 27 AoAs did include GHG mitigation measures for all alternatives and quantification of GHGs for all discussed alternatives. These investments were approved between 2018 and 2022. But not all projects approved during the same timeframe include mitigation measures for all alternatives.

⁷⁸ These elements are highlighted as requirements under the U.S. National Environmental Policy Act’s guidance on Alternatives Analysis: <https://www.ecfr.gov/current/title-40/chapter-V/subchapter-A/part-1502/section-1502.14>.

Box 4. Good Practice in Analyses of Alternatives

When should an Analysis of Alternatives take place?

Ideally, an AoA should be conducted in parallel with project feasibility studies during the early stages of the ESIA process, before the optimal project option has been selected.

What are GIIP or emerging best practices for alternative analysis related to climate change impacts?

Other development finance institutions have strong guidelines in place for the sequencing and technical requirements of an ESIA and AoA. The U.S., through the Clean Air Act, and the European Union, employ regulations that require companies to take a “best achievable control technology (BACT)” or “best achievable technology” approach.

What do good practice AoAs cover?

An AoA should assess and compare technology elements associated with each proposed solution to meet the same development outcomes – including technology maturity, integration risk, manufacturing feasibility, technology maturity, and demonstrated needs. Stakeholder engagement should be conducted to socialize the options and help identify the risks of each alternative. The alternatives should include a “do nothing” option, as well as different options for replacement of systems and technology.

CAO did identify some good practice examples from the project sample that illustrate how IFC can systematically improve its approach to using AoAs to mitigate the climate impact of its investments. For instance, a client in the oil and gas sector conducted an analysis that evaluated a no-project alternative alongside alternative designs, layouts, and technologies and considered each alternative based on detailed climate change considerations, such as the project’s impact on valuable vegetation/ecosystems and the presence of forests with a high naturalness index and nature reserves that sequester carbon.

b. Identification of Technologies

As described earlier, IFC’s EHS Guidelines provide a framework for IFC clients to compare their options with good practice and assess the performance of project processes and technology. Specifically, the EHS guidelines provide a technical reference for the performance levels and measures that are “normally acceptable, and which are generally considered to

be achievable in new facilities at reasonable costs by existing technology.”⁷⁹ The EHS General Guidelines set out basic principles, standards, and approaches that apply to all projects, while industry-specific guidelines address issues that may arise in sensitive industrial sectors.⁸⁰

For GHG emissions, the EHS guidelines should act as the reference point for identifying whether the adoption of newer technologies is appropriate in order to mitigate a project’s GHG emissions. However, despite their intent to specify ongoing good practice, IFC’s General EHS Guidelines have not been revised since 2007. Many of IFC’s sectoral guidelines for industries whose operations have significant climate impacts are equally outdated — with the exception of the Cement Manufacturing guidelines, updated in 2020. The EHS Guidelines for Natural Gas Processing, Electric Power Transmission and Distribution, Metal Smelting and Refining, Steel Mills, Gas Distribution, Fertilizer Manufacturing, Forestry, and Mining have

⁷⁹ PSI, Overview, para. 6; See also General EHS Guidelines.

⁸⁰ The EHS Guidelines have considerable influence beyond IFC’s portfolio. Many other financial institutions, both public and private, use them as part of their commitments under the Equator Principles.

not been updated since 2007, and the guidelines for Thermal Power were last updated in 2008.⁸¹ As a result, both the general and many sectoral guidelines do not reflect current expert understanding of the risks and impacts of GHGs as well as the significant technological advancements and innovations that have taken place over the past 18 years that can help companies achieve necessary GHG reductions.⁸² Further, the General EHS Guidelines section on greenhouse gases does not recognize that supply chain inputs or downstream uses can generate significant emissions, although the current state of knowledge recognizes that these can be significant.

The subsample of 16 IFC-financed real sector projects that CAO analyzed in detail with respect to alternatives analysis all used the EHS sector guidelines. The guidelines were subsequently referenced in most project E&S Action Plans, with corresponding action items for clients. In many cases, clients were also required to report on these actions in their Annual Monitoring Reports to IFC. This demonstrates that clients actively use the EHS guidelines, but their efficacy in achieving meaningful GHG reductions may be limited by the use of outdated benchmarks and expectations that no longer correspond to good international industry practice. As a result, effective GHG mitigation actions are likely to be left out of environmental plans and agreements, posing a significant gap with current good practice for the relevant industry.

In summary, the absence of clear, up-to-date requirements in the Performance Standards and EHS Guidelines, the current application of GIIP by IFC project teams and clients lacks a reference in the Sustainability Framework. CAO found that, as such, IFC often lacks assurance that clients are implementing GHG reduction technologies in accordance with GIIP.

c. Ecosystem Services

Ecosystems provide a valuable, widely recognized service in the mitigation of GHG emissions. The findings from CAO's research suggest that IFC requires a more proactive approach to achieve good practice in preserving and enhancing the sink capacity of land and vegetation affected by its investments.

As described above, PS6 identifies carbon storage and sequestration and climate regulation among the valuable functions of ecosystem services, but does not require IFC clients to take specific measures to protect the integrity of carbon storage and sequestration services.⁸³ Instead, the PS6 guidance note specifies that PS6 cannot be applied to projects for carbon sink capture of GHGs,⁸⁴ despite the role of land-based removal of GHGs in meeting global climate goals.^{85, 86}

Notwithstanding the above discussed ambivalent guidance on PS6, CAO's analysis for this paper found

81 The technical and scientific literature on which the 2007 and 2008 guidelines are based is even older, with many key provisions relying on papers dating from the 1990s. See EHS Guidelines, References and Additional Sources.

82 In addition, the guidelines for IFC clients use phrases such as "recommend" or "should consider," without indicating which options IFC will require or even which are preferred in any given circumstance.³ This leaves IFC project teams and clients without concrete guidance on GIIP and IFC expectations in the treatment of GHGs.

83 PS6 establishes "priority ecosystems" as: "(i) those services on which project operations are most likely to have an impact and, therefore, which result in adverse impacts to Affected Communities; and/or (ii) those services on which the project is directly dependent for its operations (e.g., water, (para 24)). It further states that: "With respect to impacts on priority ecosystem services of relevance to Affected Communities and where the client has direct management control or significant influence over such ecosystem services, adverse impacts should be avoided. If these impacts are unavoidable, the client will minimize them and implement mitigation measures that aim to maintain the value and functionality of priority services."

84 "PS6 does not apply in instances where a client, through its project, lacks direct management control or significant influence over such services. Examples include regulating ecosystem services whose benefits are received on a global scale (such as local carbon storage that could contribute to mitigation of global climate change). Impacts on this scale are covered as part of the risks and impacts identification process in PS1, with additional guidance in GN31–GN35 of its accompanying Guidance Note. Client requirements related to GHG emissions are described in PS3 paras. 7 and 8 and in GN16–GN26 of its accompanying Guidance Note." GN114 in the PS6 Guidance Note is also relevant: "Client requirements in Performance Standard 6 for ecosystem services are applicable only when the client has "direct management control or significant influence" over such services. Therefore, ecosystem services whose beneficiaries are at the global scale, and sometimes the regional scale, are not covered under Performance Standard 6. These include regulating ecosystem services, such as carbon storage or climate regulation, where the benefits of such services are received on a global scale."

85 Increasing absorption capacity is considered a matter of urgency by the IPCC, which notes that as the world moves to net-zero emissions, it will increasingly depend on that sink capacity to store residual emissions from other sectors. The IPCC estimates that limiting temperature rise below 1.5°C will require agriculture, forestry, and other land uses to start removing GHG emissions on net by around 2030.

86 Performance Standard 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) may not have been developed with the mitigation of GHGs in mind, however given the importance of living natural resources to GHG mitigation, the requirements *could* be applied for the purposes of GHG mitigation.

that IFC agreed with its clients, in some instances, to protect and enhance carbon sink capacity. Of the full project sample, CAO identified 18 investments to which IFC applied PS6 requirements, but CAO focused its analysis on only 10 out of 18 that were high emitting projects. The analysis found that IFC did not address carbon-sink capacity in all of these projects in a consistent manner. Specifically, the client ESAs for

9 of these 10 projects included mitigation measures to protect carbon sink capacity- such as minimizing the amount of vegetation cleared for the project and implementing reforestation plans to replace trees that were removed. However, only in 6 of these projects, IFC included actions in the E&S Action Plan (ESAP) to address risks to carbon capture through mitigation measures.

Table 2. Sample IFC projects using ecosystem services for mitigation of GHGs.

Projects that noted yearly emissions over 25,000 tonnes CO _{2e} /year & triggered PS6	10
Number of projects where IFC notes risks to carbon sinks*	5
Number of projects where client ESIA included measures specifically to enhance carbon sink capacity*	1
Number of projects where client ESIA included measures specifically to protect carbon sink capacity*	9
Number of projects where ESAP included mitigation measures related to carbon sinks*	6

*These may not include explicit references to carbon sinks but use different terminology. CAO analyzed this data by looking into habitat destruction, impacts on ecosystem services, deforestation risks, and other relevant topics.

IFC can strengthen its approach to carbon sequestration by more systematically applying best practice on protection and enhancement of carbon sinks and through clear application of PS6 toward that aim. Several frameworks that exist provide good practice guidance for corporations regarding soil and plant capture of GHG emissions from their activities. For example, WWF/SBTi's Forest, Land, and Agriculture Science-Based Target-Setting Guidance (FLAG) provides a framework for clients in land-intensive sectors to

set science-based targets for cutting emissions and enhancing carbon sink capacity in line with limiting global warming to 1.5°C,⁸⁷ and includes specific pathways in key sectors.⁸⁸ The specific actions that IFC clients can take are highly sector — and context — dependent. Guidance on good practices can be found in a variety of commodity-based responsible management guidelines,⁸⁹ climate smart agriculture practices,⁹⁰ and related sources, including the World Bank's recommendations on achieving net-zero food systems.⁹¹

87 Anderson, CM., Bicalho, T., Wallace, E., Letts, T., and Stevenson, M. 2022. Forest, Land and Agriculture Science-Based Target-Setting Guidance. World Wildlife Fund, Washington, DC; <https://sciencebasedtargets.org/resources/files/SBTiFLAGGuidance.pdf>.

88 Ibid, p.15.

89 See, for example, Roundtable on Sustainable Palm Oil (RSPO), <https://rspo.org/>; Roundtable on Responsible Soy (RTRS), <https://responsiblesoy.org/?lang=en>.

90 UN Food and Agriculture organization, 2017, Climate-Smart Agriculture Sourcebook, <https://www.fao.org/climate-smart-agriculture-sourcebook/en/>; Sova, Chase Anthony; Grosjean, Godefroy; Baedeker, Tobias; Nguyen, Tam Ninh; Wallner, Martin; Nowak, Andreea; Corner-Dolloff, Caitlin; Girvetz, Evan; Laderach, Peter; Lizarazo, Miguel. Bringing the Concept of Climate-Smart Agriculture to Life: Insights from CSA Country Profiles Across Africa, Asia, and Latin America (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/917051543938012931/Bringing-the-Concept-of-Climate-Smart-Agriculture-to-Life-Insights-from-CSA-Country-Profiles-Across-Africa-Asia-and-Latin-America>

91 "Sutton, William R.; Lotsch, Alexander; Prasann, Ashesh. 2024. Recipe for a Livable Planet: Achieving Net Zero Emissions in the Agrifood System. Agriculture and Food Series Conference Edition, © Washington, DC; World Bank. <http://hdl.handle.net/10986/41468>

Box 5: Mitigation of GHG emissions from IFC investments in Financial Intermediaries

IFC's financing of Financial Intermediaries (FIs) is an important part of its mandate and strategy in emerging markets, in particular with regard to supporting sustainable capital markets and financial sector development. These FI investments have grown significantly in the past 15 years and now account for approximately half of IFC's current portfolio (FY2023). FIs supported by IFC in turn lend to borrowers with these investments, known as FI subprojects or just subprojects. IFC often invests in FIs operating in fragile and conflict-affected contexts where the availability and access to bankable project deals is often more limited than in other emerging markets. Yet application of GHG mitigation can be challenging with FI clients — as can IFC accounting for the emissions it finances and disclosing its portfolio carbon footprint.

IFC requirements for FI clients and GHG mitigation

While IFC's Performance Standards do not include a specific set of standards for Financial Intermediaries⁹² FI clients are expected themselves to apply the performance standards to their sub projects financed by IFC. Ensuring that relevant IFC PS are applied to IFC subprojects is critical to ensuring alignment of IFC's portfolio with climate targets. An example of the pitfalls that can result from shortfalls in ensuring the application of PS is IFC's investment in Rizal Commercial Banking Corporation — an FI which funded coal-powered plants in the Philippines.⁹³ A CAO compliance investigation found that shortcomings in IFC's review and supervision contributed to RCBC supporting the development and expansion of the power plants without assurance that the plants would operate in accordance with IFC's Performance Standards including with requirements to quantify and reduce greenhouse gas (GHG) emissions. Once the plants referenced in this investigation are operational, they will produce approximately 40 million metric tonnes of CO₂ annually, which is equivalent to 30 percent of total CO₂ emissions in the Philippines for 2019. The Board-approved Management Action Plan developed by IFC in agreement with RCBC, after consultation with the Complainants includes addressing GHG emissions related to the power plants and enhancing RCBC's climate-related disclosures.

Good practice regarding FIs and GHG mitigation.

All MDBs, including IFC, follow the “Joint-MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations - Intermediated Financing,” developing their internal guidelines and processes based on this methodology. The joint principles present two acceptable approaches: the transaction-based approach (use of proceeds) and the counter-party-based approach (credible alignment pathway). The transaction-based approach allows MDBs to apply the PA methodology only to the specified subprojects for which an investment is earmarked. In the counter-party approach, an MDB must apply the methodology to the relevant FI investee's entire portfolio. The latter approach will result in stronger results toward meeting the 1.5-degree goal, because it eliminates situations where MDBs may state that their FI investment is PA aligned when not all subprojects meet this benchmark.

⁹² The E&S risk management frameworks of other MDBs, including the World Bank do address FIs: e.g. EBRD Performance Standard 9: Financial Intermediaries - EIB Standard 11: Intermediated Finance - World Bank Environmental and Social Standard 9: Financial Intermediaries.

⁹³ See the complaint and compliance findings regarding IFC's investment in Rizal Banking Corporation at <https://www.cao-ombudsman.org/cases/philippines-rizal-commercial-banking-corporation-rcbc-01>

Box 5: Mitigation of GHG emissions from IFC investments in Financial Intermediaries (Cont.)**Recommendations for IFC**

- Assist FI clients to strengthen their climate mitigation practices, applying them across all FI investments and the entire portfolio of the FI.
- Require all FIs it finances to measure and report GHG financed emissions in its entire portfolio to IFC.
- Consistently apply the Paris Joint MDB Paris alignment methodology for financial intermediaries, using the *counter-party-based approach*.
- Harmonize the Sustainability Framework with the PA methodology as above.

See: IFC Guidance Note on Financial intermediaries, available at: <https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>

3.3 Disclosure of GHG Mitigation

Public disclosure of GHG emissions is important for transparency and accountability and can act as a driver for systematic application of GHG-related requirements and efforts by IFC and its clients. As such, it is foundational to the mitigation of emissions, which in turn is integral to achieving IFC's climate strategy and goals. In this section, CAO analyzes IFC's approach to disclosing its GHG emissions footprint at the institutional level and compares IFC's approach to accepted good practice.⁹⁴

3.3.1 IFC'S DISCLOSURE COMMITMENTS

As an international organization, IFC is not required to file corporate reporting in any jurisdiction. However, considering the centrality of climate efforts to its mandate and strategy, IFC has committed to providing clear and standardized reporting on its climate-related activities, including information on financed emissions generated through its investment portfolio.⁹⁵ In 2015, IFC joined with other MDBs, DFIs, and commercial banks to adopt a [Harmonized Approach](#) to project-level GHG accounting, updated most recently in 2022. Participating institutions annually report the aggregate relative GHG emissions anticipated from direct investment projects approved or signed in the previous year, and are encouraged to report additional metrics, including baselines, absolute emissions, portfolio-wide relative emissions, and lifetime GHG emissions.

⁹⁴ While CAO did not conduct an analysis on project level disclosures, IFC's Access to Information Policy stipulates that: "For each proposed Category A and B project, IFC discloses a summary of its review findings and recommendations, the Environmental and Social Review Summary (ESRS). The ESRS includes: ...(v) where greater than 25,000 MT CO₂ equivalent, the expected GHG emissions of the project."

⁹⁵ IFC notes that the institution will "better align climate metrics to IFC investment appraisal and business development processes" in its note on definitions and metrics for climate finance activities, April 2017.

3.3.2 ANALYSIS: IFC'S ADHERENCE TO DISCLOSURE COMMITMENTS

IFC publishes the following reports that incorporate information on climate financing, climate risk, and GHG emission disclosures:

- An Annual Report, which includes a “TCFD reporting section.” The 2023 report section states that IFC estimates and reports aggregate GHG emissions reductions from its investments, including Scope 3 (value chain) emissions.
- An annual Sustainability Report in the form of a section in its Annual Report.⁹⁶

Further, the World Bank Group's Joint Report on Multilateral Development Banks' Climate Finance is published annually but does not disaggregate IFC data. The World Bank Group also committed in 2024 to introducing climate-related indicators in the Corporate Scorecard. These will include reporting on its commitment to reducing emissions.

CAO analyzed all these disclosures for 2023 and compared them to good practice with the results shown in Table 4 below.

In summary, the actual reporting parameters and metrics IFC uses are not complete or consistent with the leading reporting standards and frameworks (GIIP), including TCFD and GRI.⁹⁷ In addition, IFC does not report that it uses — and it does not seem to use — the PCAF for guidance, which is the widely acknowledged good practice standard for financial institutions.

3.3.3 ANALYSIS: HOW DOES IFC'S CORPORATE-LEVEL DISCLOSURES COMPARE WITH GIIP?

Investors increasingly make decisions informed by climate risk, in recognition of the impact climate change can have on business operations and the opportunities it may open up for business strategy. Consumers, too, have demonstrated increasing concern about the contribution their choice of goods or services makes toward climate change.

In response, voluntary efforts such as the Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP) and Taskforce on Climate-related Financial Disclosures (TCFD) have expanded the landscape of corporate climate risk and impact reporting, and these have been joined by new initiatives targeting climate disclosure by financial institutions in particular. Frameworks such as the CDP, GRI and TCFD provide guidance on how sustainability reporting — including on climate risks and opportunities — should be done. They have incorporated standards issued by the GHG Protocol, a greenhouse gas accounting standard that is most widely used by corporations. This protocol details methodologies for accounting for emissions as well as clear and comparable metrics for emissions.

The TCFD and Partnership for Carbon Accounting Financials (PCAF) are the disclosure standard setters most relevant for financial institutions. PCAF is a global GHG accounting and reporting set of standards that facilitates financial industry alignment with the Paris Agreement. Building on the GHG Protocol's accounting methodologies, PCAF expands upon and details what Scope 3 emissions mean for companies in the financial services sector.⁹⁸ PCAF currently boasts more than 500 financial institutions globally as signatories using the standards for their climate risk and opportunity disclosures.

⁹⁶ See <https://www.ifc.org/content/dam/ifc/doc/2023/ifc-annual-report-2023-sustainability.pdf>.

⁹⁷ GRI (Global Reporting Initiative) defines sustainability reporting as the practice of companies disclosing the most significant economic, environmental, and social impacts that arise from their corporate activities, and thereby being held accountable for these impacts and responsible for managing them.

⁹⁸ PCAF standards have been reviewed by the GHG Protocol. They conform with the GHG Protocol requirements of the Corporate Value Chain (Scope 3) Accounting and Reporting Standard, for Category 15 investment activities.

Table 3. Voluntary Sustainability Reporting Standards

The Carbon Disclosure Project is a global non-profit that helps companies and governments reduce their GHG emissions. CDP's platform is a source of information on how companies and governments are driving environmental change. CDP recommends the PCAF framework in its climate change questionnaire for the financial sector.



The GRI Standards are a set of standards for reporting that includes Universal, Sector, and Topic Standards. The Universal Standards contain general disclosures that are mandatory for all reporters



The TCFD's focus is reporting on the impact an organization has on the global climate. It seeks to make firms' climate-related disclosures more consistent and therefore more comparable. It believes that better information will allow companies to incorporate climate-related risks and opportunities into their risk management, strategic planning and decision-making processes.



The Partnership for Carbon Accounting Financials (PCAF) is an industry-led initiative that provides a standardized set of guidelines for measuring and reporting GHG emissions from financial activities. The PCAF Standard is a three-part standard that provides guidance on measuring and disclosing GHG emissions for various asset classes.

Good international industry practice for GHG reporting by financial institutions, including DFIs, highlights the importance of calculating and disclosing “financed emissions” generated by borrowers and investees. PCAF's standards require financial institutions to assess and disclose GHG emissions generated by their investments through investor-customized Scope 3 GHG accounting (based on the GHG Protocol) and disclosure guidance.⁹⁹ Measuring financed emissions enables institutions like IFC to understand their GHG emissions footprint and exposure and set a baseline and target for reductions in alignment with the Paris Agreement. The PCAF standards also support disclosures that are consistent, comparable, reliable,

and clear across financial institutions. However, IFC's present emissions reporting does not reference use of the PCAF framework.

A key omission from IFC's reporting (see Table 4) is the lack of public disclosure of absolute GHG emissions generated by IFC's overall portfolio (rather than disclosures on individual projects only). “Absolute emissions” should be quantified and reported under the GHG Protocol and PCAF, and is also recommended by the TCFD, CDP, and GRI, and used by other DFIs (see Box 5). The absence of this data from IFC's reporting is notable because it is critical for tracking overall carbon footprint, climate risk and opportunities.

⁹⁹ PCAF (2022); The Global GHG Accounting and Reporting Standard Part A: Financed Emissions, Second Edition.

Box 6. DFI comparison: GHG emissions reporting by Inter-American Development Bank-Invest

In its annual report, the IDB's private sector arm:¹⁰⁰

- States that its climate goal is supporting Net Zero for the Latin American Region
- Reports on its emissions using the TCFD framework
- Includes a breakdown of Scope 1, 2, and 3 emissions separately at both at the corporate and portfolio levels,³ with all portfolio emissions included in Scope 3¹⁰¹ corporate reporting
- Compares Scope 3 (financed emissions) for the current reporting year with that of the previous year

For portfolio level disclosures, uses the GHG Protocol's Scope 3 Category 15 methodology as follows:

- Total emissions (gross combined Scope 1 and 2 emissions for projects with emission above 25,000 tonnes CO_{2e}/year).
- Emissions reduction reported for projects with emissions above 25,000 tonnes CO_{2e}/year.¹⁰²

Key weaknesses in IDB Invest's reporting compared with the TCFD standard is the lack of disaggregation of emissions by sector, including for "high-emissions sectors," and an explanation of data used.

See also IDB Invest GRI reporting: <https://idbinvest.org/sites/default/files/2023-09/GRI%20ENG%20Signed%20off%2009-01.pdf>.

¹⁰⁰ IDB Invest 2023 Annual Report; <https://www.idbinvest.org/en/publications/idb-invest-2023-annual-report-scaling-impact>.

¹⁰¹ Scope 3 emissions include IDB Invest's financed emissions through its portfolio, but it does not include its clients' Scope 3 emissions.

¹⁰² IDB Invest notes: estimated GHG emissions reduced per year by projects in the active portfolio of IDB Invest during the reporting year. Reductions from investments in financial institutions are not included.



Instead of quantifying absolute emissions, IFC's 2023 Annual Report includes a single infographic stating that IFC financed reduced emissions totaling 11.5 million tons of CO₂ for that year.¹⁰³ Without knowing the scale of absolute emissions, it is impossible to tell if the reported reduction in emissions is a worthy achievement. Moreover, the methodology for this accounting is not explained. It is unclear whether this figure represents emissions reduced by (a) assisting projects to adopt mitigation measures ("avoided emissions" in the GHG Protocol/PCAF metrics); (b) capture and storage of emissions ("removals," a PCAF metric); (c) investments in projects that have already transitioned to lower-carbon approaches; or (d) some combination of all three.

In addition, IFC's 'Carbon Neutrality Commitment Factsheet'¹⁰⁴ only covers Scope 1 and 2 emissions and only those scope 3 GHG emissions that are generated from IFC-controlled operations. This way, IFC does not report on scope 3 GHG emissions

that are generated by its clients (value chain emissions, also referred to as "financed emissions" by PCAF). IFC's partial scope 3 reporting approach runs counter to the advice that IFC offers to other financial institutions that, "for purposes of Paris Agreement alignment, it is Scope 3 emissions that are most relevant to portfolio reporting for banks."¹⁰⁵ Quantifying and understanding the full scope of emissions allows institutions such as IFC to better evaluate climate-related risks and progress toward decarbonization targets. Good reporting practice also includes clarification of the methods that financial institutions use to assess their alignment with net zero decarbonization targets. At present, IFC does not publicly provide such clarification. In highlighting areas for reporting improvements by IFC in Table 4, CAO acknowledges that portfolio-wide GHG disclosures are complex and can be challenging, particularly when the accounting needs to include emissions from sub projects of Financial Intermediaries.

¹⁰³ See fn. 78, p. 11.

¹⁰⁴ <https://www.ifc.org/content/dam/ifc/doc/2023/ifc-carbon-neutrality-commitment-factsheet-2021.pdf>

¹⁰⁵ Technical Guidance for Financial Institutions, IFC, 2023, p.8; <https://www.ifc.org/content/dam/ifc/doc/2023-delta/technical-guidance-ghg.pdf>

Table 4: Comparison of IFC reporting on portfolio level GHG emissions with GIIP

	IFC's 2023 Annual Report	IFC Carbon Neutrality Fact Sheet ¹⁰⁶	IFC 2023 Corporate Score Card	WBG 2024 Corporate Score Card	Joint Report on Multilateral Development Banks' Climate Finance
Reporting Standard used/ noted by IFC	TCFD	GHG Protocol ¹⁰⁷	n/a	n/a	Joint 'Harmonized Approach'.
GIIP Standard					
PCAF: Financial institutions shall report the absolute scope 1 and 2 emissions of the project. Scope 3 emissions should be covered if relevant.	No	IFC does not follow GHG protocol. IFC reports on scopes 1 & 2 and includes only partial Scope 3 reporting as (from <i>IFC operations only</i> , not from the portfolio). ¹⁰⁸	No	The scorecard includes indicator on net GHG emissions per year. Not clear what the reporting will look like in terms of different Scopes.	IFC's reporting covers WBG without disaggregation of IFC financing. ¹⁰⁹ No reporting on absolute emissions.
TCFD: Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.					
GHG Protocol: The GHG Protocol Corporate Standard requires reporting a minimum of scope 1 and scope 2 emissions. Optional disclosures: Emissions data from relevant scope 3 emissions activities for which reliable data can be obtained.					
PCAF: Any omissions need to be justified.	No	No	No	No	No
PCAF: Reporting on absolute emissions disaggregated by sector/asset class.	No	No	No	No	No
PCAF, TCFD: Avoided and removed emissions to be reported if the methodologies and data available allow (Availability and reliability of data should not prevent accounting and disclosure and a data quality score can be added to metrics used).	Report notes total emissions reduced per year. No methodology is referenced. ¹¹⁰	No	No	No	No
GHG Protocol, ¹¹¹ TCFD: ¹¹² Third party verification/external assurance of disclosures.	No	No	No	No	No

¹⁰⁶ <https://www.ifc.org/content/dam/ifc/doc/2023/ifc-carbon-neutrality-commitment-factsheet-2021.pdf>

¹⁰⁷ IFC notes in its FY2021 Carbon Neutrality Fact Sheet: "The methodology IFC formally used is based on the Greenhouse Gas Protocol Initiative (GHG Protocol), an internationally recognized GHG accounting and reporting standard."

¹⁰⁸ See footnote 104. IFC's Carbon Neutrality Fact Sheet notes that it does not include the "footprint of IFC's client Portfolio" (i.e. Scope 3 'Financed emissions'). CAO was not able to locate any other report where IFC discloses scope-related emissions.

¹⁰⁹ It is unclear whether the metric annualizes the full lifetime emissions of projects.

¹¹⁰ See IFC note definitions and metrics for climate-related activities, available at <https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-climate-definitions-v31.pdf>.

¹¹¹ See 'GHG Protocol Reporting Template': <https://ghgprotocol.org/sites/default/files/2022-12/GHG-Protocol-Reporting-Template.docx>

¹¹² Both GHG Protocol and TCFD recommend the use of third-party/ external verifiers. For TCFD, the external assurance of disclosures is not one of its 'recommended disclosures' but it's a good practice to implement. Similarly, GHG Protocol mentions that verification can be done both internally and externally.

4.

Summary and recommendations



Based on the analysis above, IFC's current approach to the quantification, mitigation, and disclosure of GHG emissions in its project portfolio has weaknesses and is not fully up to date, limiting its effectiveness in contributing to the mitigation of GHG emissions and to efforts to limit global warming. Shortfalls include the absence of a robust overall goal to drive IFC's climate-related efforts and the fact that IFC's requirements for clients to quantify and mitigate project GHG emissions through the Performance Standards do not meet current good international industry practice. Further, IFC's disclosures on GHG emissions in its portfolio do not meet good practice standards on methodology, metrics and disclosure for financial institutions.

Recent IFC initiatives, including the Paris Alignment approach and industry decarbonization strategies that focus on climate transition and lower carbon pathway approaches in key industries, could go a long way toward addressing such weaknesses. To be most effective, however, these initiatives must be fully integrated into the requirements IFC expects from client companies throughout the project cycle, with the investee (and IFC) held accountable for implementation. IFC's upcoming review and update of the Sustainability Framework offers a critical opportunity to plug the gaps in the Performance Standards that CAO has identified.

Below, CAO provides key takeaways from the analysis in this Note, as well as recommendations designed to support IFC's continued leadership on sustainable finance. These cover three areas: (a) goal, strategy, and policy, (b) IFC's project-level management of GHG emissions, and (c) reporting and disclosures. CAO also notes that

while an update of the Performance Standards can bring IFC closer into alignment with GIIP, other recommendations below do not require waiting for the PS update. These include the requirements made of clients with regard to accounting, mitigation, and disclosure, the setting of goals and targets at the corporate and sector level, and IFC's corporate disclosures of financed emissions.

4.1 Goal, strategy, and policies

KEY TAKEAWAY 1: IFC should commit to limiting warming to 1.5°C as its overall climate goal and ensure complete integration of PA into the updated Performance Standards.

The 195 Parties to the Paris Agreement¹¹³ adopted 1.5°C as the ultimate aim of their decarbonization efforts, as have more than 1,100 leading companies. Decarbonization leading to 1.5°C of warming has become the benchmark for assessing the ambition of global, national,

113 Decision 1/CMA.5, para. 42, https://unfccc.int/sites/default/files/resource/cma5_auv_4_gst.pdf; See also UNFCCC, 2021b, "Glasgow Climate Pact" in Report of the Conference of the Parties Serving as the Meeting of the Parties to the Paris Agreement on Its Third Session, Held in Glasgow from 31 October to 13 November 2021. https://unfccc.int/sites/default/files/resource/cma2021_10_add1_adv.pdf; Decision -/CMA.5, para 191; https://unfccc.int/sites/default/files/resource/cma5_auv_4_gst.pdf

subnational, and private sector mitigation efforts. This goal is synonymous with the concept of “Paris Agreement,” to which the World Bank Group and IFC are committed. However, as the WBG recognizes, not all Net Zero commitments use science-based approaches and targets, and as such, will not in fact contribute to keeping warming below 1.5 degrees.

Recommendations:

- IFC should commit to limiting warming to 1.5°C as its overall climate goal. IFC should further set targets and define possible approach(es) to achieve that goal.
- IFC should align its climate strategy, due diligence of potential investments, and incorporate PA to the Performance Standards, to ensure that IFC and its clients are on track to contribute to the 1.5°C aligned target(s).

4.2 Project-level management of GHG emissions

KEY TAKEAWAY 2: IFC should adopt a robust and coherent system for applying its “mitigation hierarchy” to managing GHG emissions effectively.

IFC should adopt appropriate industry “best practices” i.e. GIIP regarding mitigation of emissions. The Performance Standards can be applied as they currently are towards this purpose. In addition, when updating its Sustainability Framework, IFC should ensure that clear and robust GHG mitigation requirements, at the project level, are included.

IFC faces a two-pronged dilemma in this regard. First, the Sustainability Policy does not provide clear and concrete requirements on GHG reduction and mitigation at the project level and includes caveats like “*when technically and financially feasible and cost effective*” that hinder IFC and client action. This has resulted in weak and inconsistent project-level GHG mitigation

measures at odds with IFC’s efforts to align its operations with Paris Agreement goals. Second, IFC expects clients to assess and manage environmental and social impacts in accordance with good international industry practice (GIIP). However, IFC itself faces challenges in keeping up with evolving practices and their application, with the EHS Guidelines in particular badly outdated.

Recommendations:

- IFC and its clients should adopt emerging best practice standards and practices identified by regulators, industry associations, UN initiatives, and other entities with the relevant mandate and expertise in the update of its performance standards.
- IFC should update its EHS in guiding appropriate mitigation technologies and consider ways it can ensure that its EHS is up-to date and reflecting GIIP.

KEY TAKEAWAY 3: IFC should detail and require a robust alternatives analysis for projects as a key tool for reducing GHG emissions.

An Analysis of Alternatives (AoA) is an important tool for identifying low-carbon alternatives to a project or project design. Detailed alternatives analyses are required by many institutions and are the established good practice for development projects. While IFC does require AoAs, they are not required for all projects, and guidance on what an AoA should include is not sufficiently detailed. Further, IFC typically considers only GHG-reducing alternatives within the project scope, and not lower-carbon alternatives to projects. Resource efficiency — a key strategy to avoid E&S impacts upstream, within, and downstream of project operations — and enhancement of carbon sink capacity are two additional aspects of climate mitigation that require a more proactive approach by IFC.

Recommendations:

- To maximize the value of alternatives analysis for effective mitigation of GHGs, IFC should

develop comprehensive guidelines building on those developed by IDB and including guidance on decarbonization.

- IFC should consider: (i) prioritizing fuel efficiency as a core GHG avoidance strategy for investments and removing the “cost effectiveness” limitation to the adoption of new technology, (ii) providing blended finance to support countries and companies to adopt new technologies that support the aim of “just transitions,” and (iii) strengthening its requirements for managing GHG sinks and sources in the lands sector, in line with Paris Alignment benchmarks, to preserve and enhance the sink capacity of project lands.

4.3 Accounting/quantification and disclosure of GHGs

KEY TAKEAWAY 4: IFC should align its GHG accounting provisions with voluntary private sector standards and adopt financial institution industry-standardized reporting on GHGs to assist with monitoring progress toward climate goals.

There is growing convergence among private and state actors on good practice GHG reporting methods and disclosure requirements. Reporting and disclosure practices and requirements for IFC at the corporate level lag behind market good practices, undermining transparency and clarity in monitoring progress.

IFC’s Performance Standards limit the utility of GHG accounting as a tool to assist clients in better managing emissions. Client requirements to quantify and report emissions are limited first by the threshold of 25,000 tCO_{2e}/year and second by the exclusion of Scope 3 value chain emissions. These limited requirements do not meet the bar for recognized good practice and are not fit for purpose in meeting IFC’s climate goals.

Recommendations:

- IFC should align its GHG accounting provisions with the standards of voluntary private sector initiatives by lowering the quantification and reporting threshold for investment projects where relevant.
- IFC’s required client reporting on GHG emissions should include mitigation measures and reductions achieved rather than simply the quantified emissions.
- IFC should require clients with high Scope 3 emissions to quantify and mitigate those emissions.
- IFC should report on GHG emissions from its FI investments.
- IFC should adopt financial institution industry-standardized reporting on GHG metrics to assist with monitoring toward climate goals by (i) providing clear and disaggregated reporting on GHG emissions at the portfolio level, including absolute emissions, removed emissions, avoided emissions, and emissions by sector and asset class; and (ii) providing additional reporting in line with net zero/1.5-degree targets that cover net emissions based on total emissions, reductions, and the development of carbon sinks.

KEY TAKEAWAY 5: IFC’s climate mitigation approach for financial intermediaries should be adjusted to reflect best practices in management of GHG emissions for FI investments and their subprojects.

Annex 1: Methodology

Overall research aim: The research explored whether and how IFC identifies GHG emissions risks in the projects it finances, and how GHGs are quantified, mitigated, and reported on by IFC clients compared with good industry practice.

Research approach.

CAO's assessment used qualitative document analysis of the applicability and application of the IFC Performance Standards for identifying and managing GHG emissions. The research had three parts:

1. Review IFC commitments and requirements regarding reduction or mitigation of emissions
2. Analyze whether and how the commitments and requirements were implemented in IFC projects
3. Review good international industry practices (GIIP) with regard to identification of climate change/ GHG risks, mitigation, and disclosures.

This Note's insights and recommendations were also informed by a roundtable workshop on April 16, 2024, with representatives of climate-related organizations, including IFIs, CSOs, think tanks, and academia. The discussion focused on the evolving role of IFIs in GHG mitigation and next generation GHG reduction policies, best practices, and standards for minimizing GHGs that IFIs should consider. In addition, CAO conducted interviews with a range of stakeholders, including IFC's E&S risk departments, the WBG's IEG, and representatives from standards organizations, including GFANZ and SBTi.

Methodology

REVIEW OF IFC POLICY, GUIDANCE, AND OTHER DOCUMENTS

CAO reviewed commitments and requirements within the Sustainability Framework to identify what is required of IFC and its clients with regard to mitigation of GHG emissions in projects, as follows:

- Sustainability policy (2012)
- Access to Information Policy
- Performance Standards
- Guidance documents for E&S specialists (such as manuals and tip sheets)
- EHS General Guidelines and sector-specific EHS Guidelines

In addition, CAO reviewed Paris Alignment documentation, including the Joint MDB Methodological Principles for Assessment of Paris Agreement, Alignment of New Operations for Direct and Intermediated Finance, and the World Bank Group Sector Notes on Paris Alignment. The objective was to identify whether IFC's PA methodology included elements for quantification or mitigation of GHGs.

ANALYSIS OF PROJECT DOCUMENTATION FOR IFC-FINANCED PROJECTS

CAO reviewed IFC project documents for a selected sample of projects (see below), to determine whether and how IFC project teams were interpreting and applying the commitments or requirements identified in IFC policy, strategy, standards, approach, or other documents.

Project documentation analyzed included:

- IRM Book
- PDS Concept
- PDS Commitment
- Board Paper
- ESRS
- Climate Finance Notes
- ESIA's
- Loan Agreements (or other legal documentation) including ESAPs.

CAO Advisory identified a manageable sample of projects to conduct an in-depth analysis of project documentation that fit with the research objective. The sample was chosen to illuminate the following aspects of projects:

- Whether the Performance Standards requirements for GHGs were being applied and in which ways
- Whether the Paris Alignment methodology was assisting project teams with identifying and integrating mitigation measures or reporting into the project design and implementation, and into supervision by IFC
- Whether project teams used the EHS guidelines in defining "good practice."

A total of 40 projects were reviewed, from three project sample groups, described below. The research team identified more relevant projects for the second and third groups, but these were not included because, despite requests, IFC did not provide CAO with access to the project documentation. The projects in the final project sample are therefore those for which CAO could obtain all the necessary project documentation directly from the IFC project portal.



Group 1	Group 2	Group 3
IFC projects with a CAO case	IFC projects from high-energy-use sectors	Good practice IFC project examples
17 Investments	19 investments	4 investments
FY 2012-2023	FY 2015-2024	FY 2024
CAO cases where the complaint included concerns over climate issues, such as air emissions, resource loss or impact, and ecosystem services loss. Due to limited documentation available to CAO Advisory, eight projects that met these criteria were included – four that went through a compliance process and four mediated by CAO in a dispute resolution (DR) process. In addition, CAO included nine investments related to the same set of complaints stemming from one specific project.	The high-energy-use sectors identified were manufacturing, infrastructure, agribusiness and forestry, and oil, gas, and mining. Two financial intermediary (FI) investments were also included. As the research sought to evaluate what IFC's Paris Alignment assessment added to the mitigation of GHGs, projects that had been subject to this approach were also included.	These projects were chosen to highlight the types of good practices IFC might be employing outside the specific quantification, mitigation, and reporting requirements included in the Performance Standards. These projects were identified together with IFC's E&S Risk department.

In conducting different aspects of the project-level analysis, CAO considered subsamples of projects drawing from the three groups presented above

that met certain criteria, in order to analyze specific issues/topics. These subsets are shown in the table below.

Subsample criteria	Issues/topics covered	# of projects
Projects that were Category A or greenfield Category B projects	Analysis of Alternatives	35 of 40
Projects that meet the PS3 threshold (25,000 tCO _{2e} /year)	GHG accounting, reporting, and mitigation	16 of 40
Projects for which PS6 was triggered	GHG mitigation measures related to carbon sinks	18 of 40

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CAO Insights Series to
Inform IFC's Sustainability
Framework Review