

Paris aligned?

The International Finance Corporation's financial intermediary investments, fossil fuels and the climate crisis





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Cover photo by: Philippine Movement for Climate Justice: Protesters against the IFC's backing for RCBC bank's investment in coal plants in the Philippines

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Executive Summary

The International Finance Corporation (IFC) still has a fossil fuel addiction. In the year when the Multilateral Development Banks (MDBs) are finally aligning their portfolios with the Paris Agreement on climate change, over seven years after the Agreement itself was made, it is time for change.

This new report from Recourse and partners¹, on the IFC's investments made via financial intermediaries (FIs - who receive over half of IFC's investments), finds that:



Despite previous pledges to end direct financing of coal, and attempts to reduce indirect coal exposure under the Green Equity Approach (GEA), recent years have seen some of the IFC's FI clients continue to invest in new coal power projects.



This includes PVI Holdings, an IFC client who insured the new Vung Ang 2 coal project in Vietnam less than six months after the IFC investment.



Numerous other FI clients have significant exposure to oil and gas power. Early signs of the IFC's methodology for Paris alignment of indirect finance suggests that these will not be automatically excluded from future investments.



While a 2023 update to the GEA to exclude new coal support is welcome, it is long overdue. Now the IFC must extend this exclusion to oil and gas.



There is also a lack of transparency and accountability surrounding the IFC's investments in FIs. While improvements have been made to disclosure, some high-risk investments are not disclosed until after IFC Board approval, while remedy for affected communities is still lacking.

If the IFC gets its Paris alignment plans right, it could have an exponential effect, not just in shifting billions of dollars of IFC support away from coal, oil and gas, but also in sending a signal to the wider investment community that it is time to stop funding fossils.

But this report suggests there is a long way to go. The report finds that ending support for new coal was the first and most urgent loophole for the IFC to close. Our research showed massive new coal plants under construction right now in Indonesia and Vietnam supported by IFC FI clients including Hana Bank Indonesia, the Postal Savings Bank of China and PVI Holdings. As this report went to print, the IFC announced a change in approach and confirmed it will stop its clients funding new coal as of January 2023.²

Even with new coal now stopped, the IFC continues to fund clients, including Equity Group Holdings in Kenya and SeABank in Vietnam, with significant oil and gas exposure. Continued expansion of the oil and gas sectors is incompatible with keeping global warming below 1.5 degrees Celsius (°C). To help keep 1.5°C alive, the IFC must stop supporting all fossil fuels, and the IFC's plan for Paris alignment must reflect this.

So far, the IFC has not done enough to demonstrate it is serious about the climate emergency. Our report recommends policy reforms that would help the IFC shift in the right direction. Not only would these reforms impact the IFC's own multi-billion dollar investments and improve transparency, they would also help to catalyse other public and private sector investments away from fossil fuels.

Our recommendations to the IFC are:



Stop funding fossil fuels: extend the GEA from coal to oil and gas; ensure the GEA rules out support to all new fossil fuel projects; and support debt and equity FI clients to exit fossil fuel exposures.



Close loopholes for underwriting of bonds and share issues.



Ensure Paris alignment applies to all the IFC's FIs.



Ensure transparency and full, prior public disclosure of any investments exposed to fossil fuels.



Allow for a regular, evidence-based, public review of the Paris alignment methodology for indirect finance.



Prioritise a gender-just approach to Paris alignment.



Address past harms and support the right to remedy and reparations.



Support clients to scale up finance in renewable energy.

Introduction

The World Bank's private sector arm, the International Finance Corporation (IFC), plays a significant role in influencing private financial flows. As the "largest global development institution focused on the private sector", the IFC aims to advance economic development by investing in the private sector.³ This role could be crucial in global efforts to shift finance away from fossil fuels and catalyse a just transition to renewable energy.⁴

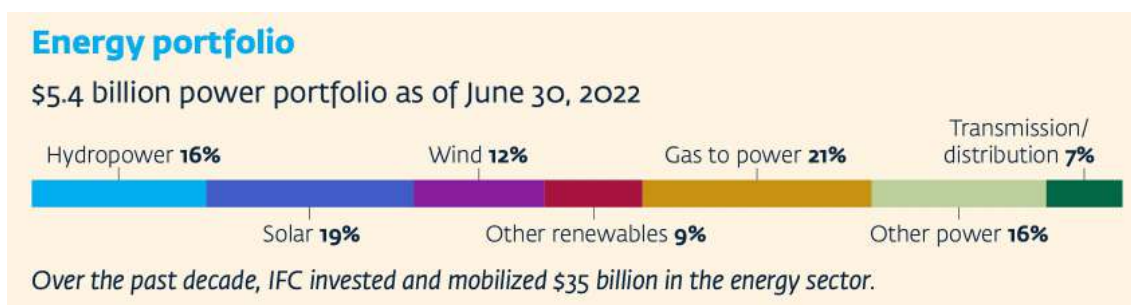
The IFC is a standard-setter - where it goes, others follow. Its environmental and social standards - the Performance Standards (PS) - form the basis of safeguards used by over 140 private banks who are members of the [Equator Principles](#),⁵ while influencing the policies of export credit agencies and other development finance institutions (DFIs).

Alongside investments in companies in over 100 countries around the world, through loans, equity investments, debt securities and guarantees, the IFC mobilises capital from other lenders and investors - both private and DFIs - through loan participations, parallel loans and other means. The IFC therefore has global influence, advising businesses and governments on how to encourage private investment and make the investment environment more attractive to investors.

With this power and influence comes a huge responsibility for the IFC, as part of the World Bank Group, to address the Bank's twin goals of ending poverty and boosting shared prosperity. These goals, which are currently being reviewed as part of the World Bank Group's new evolution roadmap, cannot be achieved in a world where climate change is [fuelling inequality](#),⁶ especially among marginalised and vulnerable communities, and [deepening poverty](#).⁷ The World Bank [itself claims](#) that unchecked climate change will push up to 130 million people into poverty over the next 10 years.⁸

And yet the IFC is still making climate-wrecking investments - including in oil, gas and coal projects. As of June 2022, the IFC's \$5.4 billion portfolio of direct energy investments included just 12% wind power and 19% solar power - with gas outstripping these at 21%. Meanwhile, indirect investments continue to flow to fossil fuels through the IFC's vast financial sector portfolio. The shift from dirty to clean energy is not happening fast enough or far enough.

Figure 1. IFC's direct investment energy portfolio to June 2022



Source: [IFC's Impact in Energy](#)⁹

2023 is a vital year for the IFC to mark a change in direction. The IFC's forthcoming Paris alignment methodology must signal this radical shift (see Box 1). In June 2021, the World Bank Group Board endorsed the new [Climate Change Action Plan](#) (CCAP) for financial years (FY) 2021-25.¹⁰ In the CCAP, the [IFC committed](#)¹¹ to align its direct lending with the objectives of the Paris Agreement: from 1 July 2023, 85% of all new IFC investments in all sectors will be aligned with the Paris Agreement's goals, and 100% of these will be aligned starting 1 July 2025.

BOX 1: Multilateral Development Banks and Paris alignment

In 2017, the Multilateral Development Banks (MDBs)¹² came together to announce their vision to align financial flows with the Paris Agreement on climate change. The Joint MDB Working Group on Paris alignment has since produced a [framework](#)¹³ to guide the implementation of this alignment for direct investment, while the IFC and European Bank for Reconstruction and Redevelopment (EBRD) led on the development of the framework for FIs.¹⁴ Individual MDBs will base their own Paris alignment methodologies on this framework. The first MDB to complete this process was the EBRD which published its direct and indirect methodologies in December 2022. Though this collaborative approach is welcome, the ambition of this framework is not equal to the challenge:



The framework outlines activities that are not compatible with the 1.5°C goal and therefore cannot be viewed as 'Paris aligned'. Although this list rules out coal - which is the bare minimum that should be expected - it fails to exclude other fossil fuels, significantly oil and gas. This is a serious problem given that between 2019 and 2021, 90% of MDB fossil fuel finance was for oil and gas.¹⁵



A common problem with MDBs' criteria on whether a project is Paris aligned is that they call for an assessment of whether the project is in line with the country's Nationally Determined Contributions (NDC) pledge. However, the 2022 United Nations Environment Programme's (UNEP) Emissions Gap Report showed that the current combined NDC pledges will result in a planetary warming of at least 2.4°C.¹⁶ MDBs could usefully support countries to enhance and deliver on their NDCs and mitigation goals to meet a 1.5°C pathway based on the principle of Common but Differentiated Responsibilities: this would require ruling out finance and policy support support for fossil gas in favour of sustainable renewables. This is why civil society is calling for MDBs to go 'Beyond Paris'.¹⁷

“While we laud any attempts to end coal power, climate-vulnerable communities wanted the World Bank Group to go further by excluding all financing of climate-busting projects, including oil and fossil gas. This will keep the rise in global temperatures below 1.5°C and ensure the survival of vulnerable communities already suffering from these climate impacts.”

Ian Rivera, Philippine Movement for Climate Justice

Figure 2. MDBs' Building Blocks Approach to Paris Alignment

1	<p>Alignment with Mitigation Goals Operations consistent with national low-emissions development pathways and compatible with objectives of the Paris Agreement.</p>
2	<p>Adaptation and Climate-Resilient Operations Operations systematically screened for climate resilience. Support increase in clients' ability to adapt to climate change.</p>
3	<p>Accelerated Contribution to the Transition Through Climate Finance Further scale up climate finance, operationalize new approaches to support NDCs, and accelerate realization of ambitions agreed under UNFCCC and in line with science-based evidence identified by IPCC.</p>
4	<p>Strategy, Engagement and Policy Development Develop new services to support clients putting in place long-term strategies for low-emissions and climate-resilient development while ensuring consistency with SDGs.</p>
5	<p>Reporting Develop tools and methods for characterizing, monitoring and reporting on Paris-aligned activities.</p>
6	<p>Align Internal Activities Progressively ensure that internal operations, including facilities and other internal policies, are in line with the Paris Agreement.</p>

Source: Joint MDB Working Group on Paris Alignment

The most recent UN climate negotiations in November 2022, in Sharm el-Sheikh, Egypt, concluded with a [specific demand](#) for MDBs to increase the ambition and scale of their climate finance, using all policy and financial vehicles.¹⁸ Importantly, this call to action also urged MDBs to “define a new vision and commensurate operational model” to deliver this, creating an opportunity for thorough-going reform of MDBs’ governance and aims as funders of ‘public goods’. Unfortunately, the World Bank Group - which includes the IFC - has fallen at the first hurdle, producing a draft [Evolution Roadmap](#)¹⁹ which does not articulate an adequately ambitious plan on climate change, [failing to mention](#) both Paris alignment and the need to exit fossil fuels.²⁰

As about half of the IFC’s investment now flows through financial intermediaries (FIs) - third parties such as commercial banks or private equity funds - all eyes will be on its methodology for aligning indirect finance with the Paris agreement on climate change.²¹ As Recourse [and allies](#)²² have [documented](#)²³ over the years, FI lending remains a particular risk in terms of channelling funds to fossil fuels. Since May 2019, the IFC has made \$1.5 billion of high risk FI investments (FI-1), and \$25 billion of medium risk FI investments (FI-2).²⁴ With such significant amounts being channelled to FIs, there is a greater need for ensuring these funds do not support fossil fuel expansion and lock in carbon intensive growth.

In its response to this report, the IFC argues that it is important to differentiate between targeted and untargeted investments - for example, the IFC excludes coal up front in

private equity fund investments; while in untargeted equity or sub-debt, the IFC applies its Green Equity Approach (GEA). As we point out below, the GEA does not exclude oil and gas and has only explicitly excluded new coal since the 2023 update to the GEA.

This report shows that some of the IFC's FI investments are still supporting fossil fuel expansion, with even new coal projects receiving support from IFC clients - crucially, after IFC investment. This is despite a [pledge](#) from the World Bank's President to end new coal finance via direct investments, apart from in exceptional circumstances, as long ago as 2013.²⁵

Public finance, particularly in support of the private sector, has no justification for continuing to enable outdated, toxic, and now relatively expensive fossil-based energy options. Instead those funds must be redirected towards a truly just and accountable energy transition that provides energy access for the most marginalised communities.

BOX 2: How can MDBs support a genuinely just transition to renewables?

While there is an urgent need to shift from fossil fuels to renewable sources of energy, this transition should happen in a way that does not further place the burden and costs on those who have done the least to cause it, such as women, Indigenous Peoples and other marginalised groups. Although renewable energy technologies do not have the climate impacts of fossil fuels, badly implemented renewable energy technologies can lead to devastating impacts. MDBs must be aware of the potential risks associated with some renewable energy projects, and with mining for minerals necessary for the transition, and should ensure that investments are supporting sustainable projects with strong safeguards that protect human rights.²⁶

In this context, MDBs must ensure that all renewable energy investments are driven by scientific social and rights-based criteria as follows.

- Aligned to a 1.5°C trajectory
- Resilient to the impact of climate change
- Sustainable use and protection of water, marine and forest resources
- Pollution prevention and control
- Protection of healthy ecosystems

In addition, investments must meet social and human rights criteria:

- Safeguards compliance
- Respect the needs and concerns of local communities, centering them in the development of energy options and prioritising the voices of women, vulnerable and marginalised people and indigenous communities.
- Free, prior and informed consent (FPIC) of Indigenous Peoples
- Uphold human rights, decent work principles, and land rights of impacted communities
- Access to functioning and independent grievance redress mechanisms

Source: [Harnessing public finance potential to create renewable energy economies.](#)²⁷

The problems with the IFC's current approach to financial intermediaries

As highlighted in the Paris Agreement, it is critical that global financial flows become “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” in order to limit global warming to 1.5°C. The IFC and other MDBs have a central, catalytic role in this process as standard setters for DFIs and the private sector, and must therefore provide robust, comprehensive methodologies for aligning their portfolios with the Paris Agreement and the 1.5°C temperature limit (as promised in 2017 and again in 2019).²⁸ In practice, this means ensuring that public finance, including indirect finance, does not support any fossil fuel projects and is instead shifted towards facilitating a just energy transition to sustainable renewable energy.

IFC progress has been slow on this front. Despite the introduction of the GEA in 2019, which has seen several FI commercial banking and insurance clients reduce their overall coal exposure, the IFC failed to prevent some investees, such as Hana Bank Indonesia and PVI Holdings, from supporting new coal power projects after the investment (see case studies below). The GEA encourages clients to reduce coal exposure by 2025, and to effectively eliminate it from FI portfolios by 2030, but until January 2023 the IFC did not require equity clients to commit to not financing new coal. It should be noted that in that period some GEA clients did commit to not fund new coal - including Equity Group Holdings and Federal Bank Limited in India, which agreed to “terminate financing of development of any new coal-related assets” when it received a \$126 million IFC investment in 2021. These exceptions raised the question of why IFC did not exclude new coal for all GEA clients.

It is welcome that the IFC has now updated its GEA to include the following language on exposure to coal: “Starting January 1st, 2023 IFC requires a commitment from FI clients to not originate and finance any new coal projects from the time IFC becomes a shareholder.”²⁹ It should not have taken years of pressure from civil society, and exposure of its support for at least two large coal power plants, for IFC to enact this exclusion.³⁰

The ambition of the GEA is also severely limited insofar as it only applies to coal. The [World Bank's 2017 commitment](#) to end financing for upstream gas and oil does not apply to investments made via FIs. In 2020, Recourse found that only 21% of investments in the IFC's FI portfolio excluded oil, gas and coal, compared to 82.7% that excluded coal alone.³¹ To this day, the IFC has numerous active investments in FIs that have funded fossil fuel projects, including gas power plants in Russia, Ghana and Nigeria, as well as oil companies operating in Kenya and Brazil.³² While there is undoubtedly an urgent need to shift finance away from coal, the urgency of the climate crisis requires finance to be shifted away from all fossil fuels and towards a just energy transition simultaneously.

BOX 3: Gas is not a green bridge fuel

While ending coal finance is understandably an urgent priority, the IFC must not lose sight of the need to exclude all fossil fuels from its Paris alignment methodologies. Despite often being touted as a 'greener' alternative to coal, fossil gas projects have dire environmental and social impacts. This includes:

- The significant leakage of methane (83 to 86 times stronger over 20 years than CO₂ as a greenhouse gas) from the processing, transport, regasification and consumption of gas.³³
- Fossil gas infrastructure, including pipelines, leak harmful chemicals into the environment and water supplies. This infrastructure is also costly, and can't be repurposed for zero-carbon energy options later on.
- Investment in fossil gas is likely to crowd out finance for sustainable renewable energy and will contribute to the 'lock in' of gas infrastructure for decades to come.
- Increased reliance on imported liquefied natural gas (LNG) leaves countries vulnerable to unreliable and unaffordable energy sources. For example, the annual average LNG price in Asian spot markets more than doubled from 2021 to 2022. With prices expected to stay high for at least the short term, this deeply threatens the energy security of gas-reliant countries, such as Pakistan which is already suffering a heavy financial toll from climate impacts.

By contrast, sustainable renewable energy is a more affordable, cleaner and more secure form of development. The IFC must therefore support efforts to urgently redirect finance away from fossil gas, and signal to the private sector that fossil gas is not a green alternative to coal, or an acceptable 'bridge' to renewables.

“Fossil gas is not Paris aligned - it is bad for the climate, bad for human rights, and bad for the environment. The World Bank and IFC should use public funds to support equitable access to green energy which will improve the lives of women, men, and children who are currently suffering the impacts of catastrophic climate change.”

Fiza Qureshi, Indus Consortium, Pakistan

Another major flaw in the GEA is that it only applies to some of the clients in which the IFC invests equity - mainly commercial banks and insurance companies, and not private equity funds. Since May 2019, only 31% of the IFC's FI investments involved an equity acquisition, whereas the remaining 69% (mostly debt investments and guarantees) are not covered by the GEA.³⁴ The IFC says that it, “excludes coal-related investments from its loans and risk-sharing facilities with financial institutions by ringfencing any investments for uses that exclude coal”.³⁵ However, significant questions have been raised about the effectiveness of this ring-fencing by the IFC's watchdog, the Compliance Advisor Ombudsman (CAO). In its 2017 Third Monitoring Report, which reviewed 38 loans targeting small and medium-sized enterprises (SMEs), the CAO found that ring-fencing was ineffective in the majority of cases it considered.³⁶ For example, the CAO found an investment in a commercial bank exposed to high risk sectors that was targeted

to SMEs. The IFC had relaxed its SME definition for this investment to include bigger companies (with annual revenue up to \$60 million). The CAO noted: "Given the expanded definition of SME lending for this project, however, IFC is potentially exposed to higher (E&S) risk sub-projects than would usually be the case for an SME loan. IFC's supervision has not engaged with this issue nor has it considered whether the bank has complied with the restriction against lending to support business activities in the environmentally sensitive region." The IFC argues that the CAO's study only covered limited clients.

Furthermore, some activities carried out by financial institutions, such as bond underwriting and share issues, are also not covered by the GEA. It is therefore essential that the Paris alignment methodology applies to all IFC clients, that fossil fuel investments are explicitly excluded, and that the methodology is comprehensive enough to exclude all forms of financial support for the fossil fuel industry.

Another key challenge for ensuring an effective Paris alignment methodology is disclosure. The GEA does require equity clients to disclose their aggregate coal exposure annually, but does not cover oil and gas exposures, nor does it require individual project information disclosure, such as name, sector and location. Without such information, it is near impossible to know how much each client is still invested, or investing, in fossil fuels. In order to learn the lessons from the implementation of the GEA and ensure that mistakes are not repeated in the Paris alignment methodology, it is vital that the IFC ensures proper transparency over the fossil fuel exposure of its own and its FI clients' portfolios.

BOX 4: Loopholes in the IFC's GEA that lead to fossil fuel funding

The GEA aims to help the IFC's equity clients exit from funding coal. However, several loopholes still allow these clients to fund coal and other fossil fuels:



Loophole 1: Until January 2023, the GEA allowed new coal finance.

Under the GEA, equity clients may have coal exposure of up to 5% of their total loan portfolio until 2025. The end goal is to reach zero or near zero by 2030. However, the GEA did not prevent GEA clients from financing new coal projects before 2030, until its January 2023 update.³⁷ Since loan terms often run to 10 years or more, it is unclear how GEA clients, such as Hana Bank Indonesia or PVI Holdings, will “reach zero or near zero” exposure by 2030 if they financed new coal projects in the meantime. It is welcome that IFC has now closed this ‘new coal’ loophole.



Loophole 2: Allows oil and gas finance. The GEA only covers the phase-out of coal finance and does not cover oil and gas projects. This is problematic because oil and gas together contribute the majority of global greenhouse gas emissions. According to the International Energy Agency, in 2020 oil and fossil gas contributed to 32% and 22% of global emissions, respectively.³⁸



Loophole 3: Defines coal exposure narrowly. The GEA defines ‘exposure’ to coal projects as “coal-related projects [that] refer to long term (more than 36 months) project finance and/or corporate finance for the development of new coal-related projects”. This definition leaves out financial services, such as underwriting of bonds or share issues, which are a vital source of funding for coal power plants. This results in IFC equity clients, such as Chinese bank PSBC, which are heavily exposed to coal via underwriting, not being covered by the GEA. This matters because in 2020 alone, a massive 65% of bank financing for fossil fuels was through the underwriting of bond and equity issuances rather than through project or corporate lending.³⁹



Loophole 4: Engages too few equity clients. The GEA applies to new equity clients and well as to existing clients with whom the IFC makes new commitments. However, for existing clients with no new business, signing up to the GEA is voluntary, meaning that overall it applies to only a handful of the IFC's 70 active equity clients. This leaves many coal-exposed clients not engaged - for example, Postal Savings Bank of China⁴⁰ and Fibabanka of Turkey.⁴¹

The IFC's overdue promise on Paris alignment

During the Glasgow climate talks in 2021, the Multilateral Development Banks Working Group for Paris Alignment (MDB Working Group)⁴² announced their target dates for their Paris alignment commitments. According to the MDB Working Group deadlines, the framework for direct finance would be road-tested in 2021 and for indirect finance between 2021 and 2022. To date, the MDB Working Group has not released its methodology for indirect finance. The IFC's commitment to release its Paris alignment methodology for indirect finance is also long overdue. Though in its [Annual Report 2021](#), the IFC promised to release its timeline for its methodology for intermediaries in October 2022, it did not meet that target.⁴³

This delay reflects the overall lack of urgency on the part of the IFC and the other MDBs in addressing the climate crisis. Some MDBs will not have fully aligned their portfolios until 2025 - almost 10 years after the Paris agreement was signed.⁴⁴ According to its 2022 Annual Report, the IFC intends to pilot the proposed methodology for FIs in 2023.⁴⁵ It remains to be seen if the IFC will be able to meet its own deadlines for implementation.

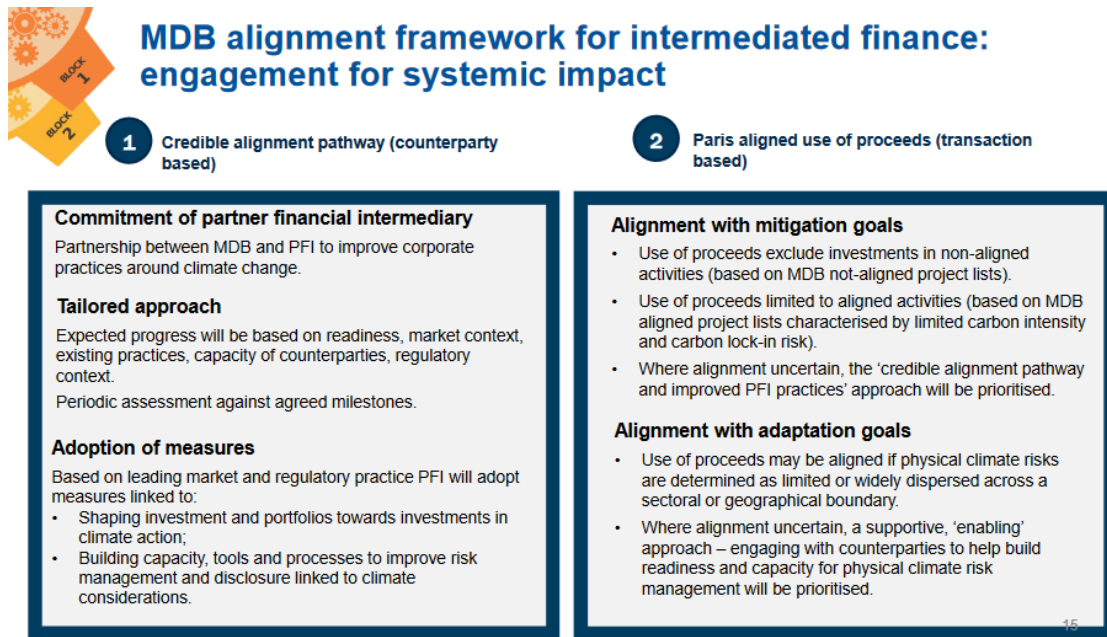
This foot-dragging is also reflected in the MDBs' [principles of assessing intermediated financing for Paris Alignment](#) (see Figure 3). These principles have several major loopholes that still allow fossil fuel projects to pass through.

First, similar to the GEA, the principles' exclusion list is very limited. As with the framework for direct investments, the list of activities universally excluded for FI investments only lists coal and peat, opening a window for oil and gas projects to be considered for funding.⁴⁶

Second, where there is uncertainty in the alignment of proceeds-based products (i.e., ring-fenced investments) with mitigation and adaptation goals, the principles prioritise the FI's "credible alignment pathway and improved Partner Financial Intermediary (PFI) practices" and "engaging with counterparties to help build readiness and capacity for physical climate risk management".⁴⁷ This approach lacks specificity on how much risk exposure is acceptable for the client to be considered Paris aligned.

The third loophole is the principles' approach to equity investments, which does not technically prohibit funding non-Paris aligned projects as long as the FI commits to a loosely-defined decarbonisation pathway. Both the second and third loopholes potentially pave the way for continued support for FIs that continue to fund oil and fossil gas, which is inconsistent with Paris agreement goals.

Figure 3: MDB Paris Alignment Assessment Principles for Intermediated Finance
Excerpt from the MDB Working Group during COP 26



Source: MDB Working Group (2021)⁴⁸

Assessing fossil fuel projects as Paris-aligned as long as they are “consistent” with NDCs is another potential loophole. Since fossil fuels are still part of countries’ NDCs, they can still be considered for IFC funding via FIs. Instead of accepting current NDCs as set in stone, and potentially locking in 2.4-2.6°C of warming, the IFC should be working to increase ambition and strengthen ambition over time, by supporting sustainable renewable energy instead of fossil fuels.

Civil society has also raised concerns regarding the lack of transparency in the disclosure of transactions with FIs and their sub-projects, which have so far only partially been addressed by the IFC. While sub-projects funded through private equity are now disclosed, the IFC has only just started in the last year to disclose higher risk sub-projects funded via commercial banks - the vast majority of its FI portfolio. The IFC must disclose on its website the name, sector, and location of any exposure to coal, oil, and gas through all of its FI clients (see Recommendations below). This transparency will facilitate tracking whether the IFC or their clients are meeting their commitments and ensure accountability for possible harms to people and the planet. This is particularly important for preventing or mitigating harms to marginalised groups, including Indigenous Peoples, women, and sexual minorities, who are disproportionately impacted by fossil fuel development (see Box 5).

Moreover, the IFC must open its Paris alignment methodology on FIs for public consultation before it is implemented and for review during its implementation. In 2022, the IFC committed to “announce its own public consultations this year”⁴⁹, including with civil society, but has not yet followed through. This is not impossible to do as shown by the process adopted by the EBRD, which conducted public consultations with civil society before finalising its methodology, including for FIs. In its Paris alignment methodology

released in December 2022, the EBRD committed to reviewing the document “at least annually and updated as required... Any substantive updates to the methodology will be approved by the Bank’s Operations Committee and will be subject to public consultation.”⁵⁰

The IFC should adopt a similar approach. Public consultations are crucial to ensure that the methodology is robust and comprehensive and that it fundamentally addresses the key challenge of cutting off fossil fuel finance. Furthermore, open and transparent public consultation is vital for understanding and taking into account the potential impacts that infrastructure investments have on marginalised communities (such as women, sexual minorities and Indigenous Peoples) and biodiversity.

Box 5: Gender and fossil fuel development

Fossil fuel projects do not affect everyone equally. Marginalised groups, including Indigenous Peoples, women, and sexual minorities continue to disproportionately bear the burden of the negative impacts due to discrimination and structural inequalities enabled by patriarchy, neoliberal globalisation, and colonialism.

Women have suffered both health and economic impacts from fossil fuel operations in Indonesia and the Niger Delta. In Indonesia, one of the world’s largest producers of coal, women’s reproductive health has been negatively affected by the smog, coal dust, and contamination of water from the coal mines in East Kalimantan.⁵¹ Women from poor communities lost access to agricultural lands and land-based livelihoods, which led to increased dependence on male relatives and lowering their status in the family and society.⁵² Similarly in the Niger Delta, routine gas flaring by big oil and gas companies like Shell produce acid rain, causing skin diseases and damages to houses and agriculture. Water contamination from the refineries have also led to decline in fish catch. This meant hunger and deepening poverty for the farmers and fisher women of the Niger Delta.⁵³

A report published by Women’s Earth and Climate Action Network (WECAN) International in 2022 details the experiences of African American/ Black/African Diaspora, Indigenous, Latina/Chicana, and low-income women in the U.S. and parts of Canada.⁵⁴ The air, water, and soil pollution arising from coal, oil and gas extraction, transportation, and power generation that occur near their communities negatively impacts their fertility, mental and physical health, and daily responsibilities. Sexual violence against Indigenous women, girls, and two-spirit people has been reported to increase whenever male worker camps that are installed to temporarily house male workers for fossil fuel pipeline construction and oil field work, such as in the case of Enbridge in Canada.⁵⁵

Incidences of sexual violence linked with fossil fuel development have also been reported in Myanmar. Military presence was increased in Shan State to secure lands for the construction of the Shwe oil and gas pipeline. Resource conflicts have lead to the systematic use of sexual violence in communities wherein women suffer from rape and sexual harassment.⁵⁶

Box 6. Summarising the fossil fuel loopholes in the MDB Paris alignment assessment principles for intermediated finance



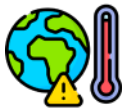
Loophole 1: Limited scope of the exclusion list in the assessment principles. Oil and gas projects can still be funded because only coal and peat are considered not universally aligned.



Loophole 2: Lack of clarity on the acceptable levels of risk exposure. The assessment principles do not indicate any threshold on the acceptable levels of fossil fuels exposure that FI clients can have when deciding whether they will provide funding.



Loophole 3: Uncertainties in so-called decarbonisation pathways. FI clients can still fund coal and peat as long as they commit to 'decarbonise' their portfolio.



Loophole 4: NDC-based definition of what is Paris-aligned. Most NDCs still include fossil fuels. Moreover, UNEP's Emissions Gap Report 2022 predicts that basing emissions projections on NDCs will lead to a 2.4°C to 2.6°C warming by the end of the century. Fulfilling current NDC ambition is therefore not sufficient to meet the 1.5°C warming goal.

CASE STUDIES

SeABank

Southeast Asia Commercial Joint Stock Bank (SeABank) is one example of how oil and gas investments can pass through the fossil fuel loophole in the IFC's GEA. While the GEA supports the phase out of investments in coal, it does not cover oil and gas investments. As a result, FIs such as SeABank that are exposed to oil and gas investments still get approved for IFC funding.

In May 2022, the [IFC approved a \\$75m convertible loan to SeABank](#), targeted towards lending to small and medium enterprises (SMEs), especially women-owned businesses, increase access to climate finance, and boost international trade opportunities⁵⁷. However, this loan can be converted into equity, which means that there is a risk that the IFC will be exposed to all of SeABank's portfolio, which includes fossil fuel investments. While SeABank is currently not exposed to coal, it is exposed to oil and gas through its long term investments and loans in PetroVietnam (PV) Oil and Gas Group's subsidiaries.

SeABank's financial report for the last quarter of 2022 shows that it had long term investments in five PV Oil Joint Stock Companies (JSCs) in 2021 and 2022.⁵⁸ SeABank's long term investments in PV Oil JSCs amounted to Vietnamese dong (VND) 44.77bn (approximately \$1.89m) in both 2021 and 2022. The Bank also had long term investments in Phu My Oil Processing JSC at VND 11bn (approximately \$463,000) in both 2021 and 2022.

SeABank's loan portfolio also includes long term loans for gas power. In 2021, PV Gas received a long term loan from SeABank of VND 779.38bn (approximately \$32.84m).⁵⁹ In 2022, SeABank released another long term loan to PV Gas amounting to VND 895.66bn (approximately \$37.74m).⁶⁰ It should be noted PV Gas is a strategic partner with SeABank. In 2019, PV Gas signed a VND 2.1bn (approximately \$89,000) credit agreement with SeABank and Eximbank for the construction of the Thi Vai LNG Storage in Ba Ria, Vung Tau province⁶¹.

Another issue with this investment is lack of transparency. The project was approved by the IFC's Board of Executive Directors on 31 May 2022, but was only disclosed on the IFC website on 1 July 2022, 30 days post-board discussion. This is unacceptable for such a high risk investment, yet this delayed disclosure is allowed by the IFC's current Access to Information Policy.⁶² In such cases where there is high risk of exposure to fossil fuels, transparency should take priority and the IFC should make early, pre-approval disclosure a matter of course for all FI investments exposed to fossil fuels.

Hana Bank Indonesia

Perhaps the clearest example of the need for a robust Paris alignment methodology on FI lending is the IFC's investment in Hana Bank Indonesia, which is funding the development of the huge Java 9 and 10 coal plants in Banten Province, Indonesia. Hana Bank Indonesia became the first pilot GEA client when the IFC made an additional \$15 million equity investment through a rights issue, the fourth investment it had made in Hana Bank since 2007, taking its total stake to around 10%.⁶³

As an existing equity client with new business under the GEA, Hana Bank is required to reduce its coal exposure by 50% (or to no more than 5% of its portfolio) by 2025 and to zero by 2030. Indeed, Hana Bank has reported that its coal exposure has reduced since it has been a GEA client, from 2.78% in March 2019 to 1.36% in December 2021.⁶⁴

However, only a year after signing up to the GEA, Hana Bank provided a \$56m loan to the developer of Java 9 and 10, PT Indo Raya Tenaga.⁶⁵ In a response to Recourse, the IFC claimed that this was not due to a loophole and that the coal exposure of GEA clients may fluctuate up until 2030.⁶⁶ While technically accurate, this ignores that a large loan to a widely condemned coal power plant runs counter to the spirit of the GEA – ultimately to reduce the coal investments (and financed emissions) of FIs. How Hana Bank will reduce coal exposure to zero by 2030, with Java 9 and 10 expected to be commissioned in 2023 and 2024 respectively, and with the loan term running beyond 2030, is difficult to see.

The development of Java 9 and 10, which is an expansion of the Banten Suralaya coal complex containing 52 coal power plants, will have devastating impacts on local communities and the climate. Estimates by Greenpeace suggest that additional pollutants emitted by Java 9 and 10 will cause 2,400 to 7,300 additional premature deaths over 30 years.⁶⁷ The local population has already been exposed to high levels of air and water pollution for decades, posing a threat to lives and livelihoods (fishing has been badly affected by the coal complex). Furthermore, the expected CO₂ emissions from the two plants are expected to be roughly the same as the annual emissions of Thailand or Spain.⁶⁸ The construction of the two plants will therefore further undermine attempts to limit global warming to 1.5°C.

Equity Group Holdings

Equity Group Holdings is one of the largest financial services companies in East and Central Africa and is the IFC's first GEA client in Africa. Prior to 2021, the IFC had invested \$362.5m in Equity Group Holdings, including an \$80m equity stake and several loans.⁶⁹

In December 2021, the IFC approved two further engagements with Equity Group Holdings - an \$84.05m equity acquisition in Equity Group Holdings and a \$50m loan to its subsidiary Equity Bank Kenya.⁷⁰ Through the first investment, the IFC acquired a 6.7% stake in Equity Group Holdings. The IFC classified this investment as high risk (FI-1), with potential risks “associated with occupational health and safety issues, pollution prevention, waste and wastewater management, labour and working conditions issues, biodiversity, and community impacts”.⁷¹

“The IFC is putting women from Suralaya in danger of getting sick and losing their livelihoods by funding the Java 9 and 10 coal power plants through Hana Bank Indonesia. For real Paris Alignment, the IFC must stop funding coal through financial intermediaries.

Novita Indri, Trend Asia, Indonesia

The loan to Equity Bank Kenya was part of a total \$165m investment, alongside the UK DFI British International Investment (\$50m) and \$65m provided by Symbiotics, ResponsAbility, and the Dutch DFI FMO, to support Equity Group's Africa Recovery and Resilience Plan.⁷² The IFC classified the loan as medium risk (FI-2), stating that this investment will "not support coal-related activities, upstream oil & gas activities, or higher risk business activities that may include: a) involuntary resettlement, b) risk of adverse impacts on indigenous peoples, c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage or d) significant occupational health and safety risks."⁷³ However, FMO gave its loan a high risk A rating due to Equity Bank Kenya's clients being "active in sectors which have potential significant and adverse environmental and social impacts, such as mining, food and agriculture and energy & water".⁷⁴

As with the IFC's 2022 SeABank loan, the investments in Equity Group Holdings was not disclosed by the IFC until 11 May 2022, 141 days after it was approved by the Board on 21 December 2021 (the loan to Equity Bank Kenya was also disclosed only after being approved).⁷⁵ As mentioned above, while this is technically allowed under the IFC's Access to Information Policy, this delayed disclosure should not be permitted for high risk investments with fossil fuel exposure. The result is that civil society had no opportunity prior to these investments being approved to scrutinise Equity Group Holding's portfolio or the potential risks of the investment.

According to the IFC, Equity Group Holdings and Equity Bank Kenya have no exposure to coal. So, while the GEA does apply to Equity Group Holdings, it has no coal exposure to reduce. Furthermore, Equity Group Holdings has committed to provide "zero lending for coal related projects".⁷⁶ This is welcome.

That being said, a key concern for this investment is Equity Group Holding's substantial exposure to oil and gas. In 2022, after the IFC's equity investment, Equity Group Holding's subsidiary, Equity Bank Uganda, signed a memorandum of understanding (MOU) with the Ugandan National Oil Company (UNOC) designed to "bring [the] two organisations together as promoters of development of the oil industry in Uganda."⁷⁷ Our concern is that the IFC's equity investment in Equity Group Holdings could translate to indirect financing for oil projects in Uganda. For example, UNOC holds a stake in the controversial East Africa Crude Oil Pipeline, a potentially catastrophic 1,443 km crude oil export pipeline that will displace thousands of people, destroy animal habitats and contribute millions of tonnes in greenhouse gas emissions in Africa.⁷⁸ UNOC is also heavily involved in the Kingfisher and Tilanga oil exploration projects, the development of Uganda's first oil refinery, and several downstream oil projects.⁷⁹

It is unclear as of yet what role or services, if any, Equity Group Holdings will provide to these or future oil projects. However, the signing of the MOU appears to send a clear signal that Equity Bank Uganda is keen to support oil development. Even if Equity Bank Uganda does not fund UNOC directly, it could be supporting and financing local SMEs to participate in the burgeoning oil and gas sector in Uganda. As such, the IFC is potentially risking exposure to significant oil expansion through its stake in Equity Group Holdings.

The IFC also risks further exposure to oil, gas and other extractive sectors via its loan to Equity Bank Kenya in support of the African Recovery and Resilience Plan. The plan cites oil and gas reserves in Tanzania, Uganda, Somalia and South Sudan as potential drivers of economic growth through which it is possible to “catalyse development of other sectors”, particularly manufacturing.⁸⁰ The plan also cites DR Congo’s “significant resource endowment” of cobalt, copper and lithium, critical metals needed for a renewable energy transition, as potential sources of growth.⁸¹ There seems a distinct possibility therefore that this investment could result in support for midstream oil and gas projects, as well as increased mining for metals. As well as the risks associated with supporting the oil and gas sectors, and locking African countries into carbon intensive industries for decades to come, there are also significant human rights risks associated with the extraction and export of metals and minerals required for a green transition. Ensuring that this loan does not support projects that involve “involuntary resettlement... adverse impacts on indigenous people [or] significant risks to or impacts on the environment, community health and safety” (as the IFC states), will require transparent oversight and proper disclosure of sub-projects by Equity Bank Kenya.⁸²

PVI Holdings

On 6 August 2021, the IFC invested \$7.48 million in PVI Holdings (PVI), an insurance company established by the state-owned energy firm PetroVietnam (and in which PetroVietnam still holds a 35% stake). The IFC disclosed the investment on the same day, under the project name ‘SILK’. This was 115 days after it was approved by the IFC Board on 13 April 2021.⁸³ The investment is subject to the GEA.

As of March 2021, PVI was the “the largest non-life insurance company in Vietnam in terms of gross written premium”. According to the IFC, the intended development impact of the project is to increase access to non-life insurance in Vietnam, particularly in health and engineering, where the IFC will “support PVI with the implementation of a corporate governance action plan [including] strengthening its environmental and social (E&S) risk management framework by introducing additional screening procedures for high risk projects”.

The IFC categorised the investment FI-1, high risk, owing to PVI’s “sizeable exposure to large corporate clients operating in high-risk sectors”, including coal, gas and oil. The IFC states that, at the time of investment, PVI was exposed to several coal-fired power plants, representing “3.7 percent of its total Gross Written Premium as of December 31, 2020”. PVI will be required to screen out high risk reputational projects. As a GEA client, PVI will be required to disclose aggregate coal exposure annually and to decrease its coal exposure by 50% by 2025. However, no specific exclusion for supporting new coal (or other fossil fuel) projects appears to have been agreed as part of the investment.

This is significant because in October 2021, after the IFC’s investment, PVI appears to have insured a new coal power plant - the 1200 MW Vung Ang 2 project in Vietnam.⁸⁴ In 2020, the Environmental Law Alliance Worldwide (ELAW) concluded that the environmental impact assessment for Vung Ang 2 did not comply with international standards as it failed to consider alternatives to coal power, permitting wet handling of ash and discharge of thermal effluent in violation of IFC Performance Standards, and by applying weak emissions standards.⁸⁵

According to *Coal Insurers of Last Resort*, a report by Solutions For Our Climate and Insure Our Future, PVI provided \$203 million in insurance for Vung Ang 2.⁸⁶ Construction of Vung Ang 2 was expected to begin in December 2021 and the plant is expected to be commercially operational by 2025.

According to BankTrack, Vung Ang 2 is highly likely to “exacerbate environmental pollution and health hazards in the Ha Tinh province, Vietnam”, with negative impacts expected to local farmland, fishing, public health, and aquatic ecosystems.⁸⁷ Local residents have complained that the Vung Ang 1 power station has already contributed to toxic air and water quality, dried out paddy fields, dying fish and banana trees failing to produce fruit.⁸⁸ The LA Times reported that proper relocation and compensation processes have not been followed for the construction of Vung Ang 1 and 2, with residents asked to sign papers without compensation amounts being agreed.⁸⁹

This case again underlines the way in which the previous loophole in the GEA, which did not explicitly prevent investees from supporting new coal, was exploited by some of the IFC's FI clients. Thankfully, as highlighted above, the IFC has now updated the GEA to clearly exclude support for new coal - it must now ensure that similar exclusions are applied to oil and gas for FI clients under the Paris alignment methodology. PVI is also another example of the IFC disclosing a high risk investment some time after Board approval. While this may not technically be in breach of the IFC's own policies, all fossil fuel projects (particularly those with such huge social and environmental impacts as Vung Ang 2) should be disclosed ahead of approval and subject to public scrutiny.

Postal Savings Bank of China

In 2015, Postal Savings Bank of China was preparing for its initial public offering. In advance of listing its shares on the Hong Kong Stock Exchange, the bank secured a prominent early strategic investor: the IFC. In a private placement in June of that year, the IFC [bought](#) \$300 million worth of shares in Postal Savings Bank.⁹⁰ Eight years later, that investment in one of China's largest banks has no doubt been profitable. Yet it has also exposed the IFC to a vast portfolio of fossil fuel financing, in particular for coal.

Postal Savings Bank has provided recent credit lines worth \$79bn to some of the largest coal developers in Asia, according to a review of regulatory filings by Inclusive Development International.⁹¹ These 23 borrowers have approximately 479 gigawatt (GW) of coal-fired power in their portfolios and 129GW of coal power under development, according to data compiled in the Global Coal Exit List. The Postal Savings Bank credit lines appear to include general purpose corporate facilities that can be used throughout the borrowers' operations, including developing new coal plants.

One borrower, China Huadian, one of the country's “Big 5” power generation companies, has an active \$16bn credit line from Postal Savings Bank on its books, according to a June 2022 filing.⁹² Postal Savings Bank has also underwritten billions of dollars of China Huadian's debt and equity securities, according to the Refinitiv financial database.⁹³ China Huadian has nearly 90GW of coal-fired power in its portfolio, [according](#) to the Global Coal Exit List.⁹⁴ At a time when many energy companies are transitioning away from coal, China Huadian plans to develop at least 17.5GW of additional coal capacity in China, Indonesia, Cambodia and Vietnam. One of these projects is the Jambi 2 Mine

Mouth Power Plant on the Indonesian island of Sumatra. The [proposed](#) 700MW plant is being [developed](#) by China Huadian, which has also [agreed](#) to purchase the plant's electricity.⁹⁵ When built, the plant will use low-grade coal from nearby mines.

In September 2021, Chinese leader Xi Jinping [announced](#) that China would cease building new coal-fired power projects abroad.⁹⁶ One year after that announcement, China Huadian said it would [withdraw](#) from the Jambi 2 project.⁹⁷ However, China Huadian has made no concrete moves to abandon the project – nor has it said whether it will also withdraw from the power purchase agreement. If built, Jambi 2 will negatively [impact](#) the environment and the health and livelihoods of local communities.⁹⁸ And it will contribute to the wider health crisis in Indonesia caused by coal. Existing coal-fired power plants in the country cause an estimated 6,500 premature deaths every year, [according](#) to research conducted in 2015 by Harvard University and Greenpeace.⁹⁹ These deaths are caused by exposure to toxic fine particles and ozone pollution.

The case of Postal Savings Bank highlights two key weaknesses of the GEA. In not applying to underwriting or retroactively to all existing FI clients, the GEA has failed to prevent Postal Savings Bank funding coal power expansion in Indonesia. These loopholes must be closed in the IFC's Paris alignment methodology.

RECOMMENDATIONS

While the introduction of the Green Equity Approach (GEA) was a welcome signal of the IFC's intention to reduce coal exposure in its portfolio, the methodology for Paris alignment must go much further. As highlighted above, the GEA covers only a minority of IFC FI investments and only since January 2023 has it excluded new coal investments, while not applying to oil and gas at all. By contrast, Paris alignment must mean seeking to reduce exposure to all fossil fuel investments, including oil and fossil gas, and must apply to all of IFC's FI clients. The IFC must learn from the experience of applying the GEA, ensure that the gaps highlighted above are bridged, and publish a robust and comprehensive methodology for Paris alignment that sets a gold standard for international finance.

Our recommendations for this methodology are:



1) Ensure IFC clients stop investing in all new coal, oil and gas projects.

It is very welcome that the IFC's update to its Green Equity Approach will stop FI clients investing in new coal projects.¹⁰⁰ To align with the Paris goal of keeping global warming below 1.5°C, the IFC must ensure that no FI clients support the expansion of coal, oil or gas – whether in the upstream, midstream or downstream.



2) Close loopholes for underwriting of bonds and share issues. The IFC's definition of 'exposure' to fossil fuels does not currently cover financial services such as bond underwriting or share issues, which are a vital source of funding for the fossil fuel industry and new projects. Between 2016 and 2021, 51% of bank financing for fossil fuels came through bond and equity underwriting, as opposed to loans.¹⁰¹ This means that several IFC equity clients that are heavily exposed to coal via underwriting have not been covered by the GEA - this loophole must be closed in the Paris alignment methodology.



3) Ensure Paris alignment applies to all IFC's financial intermediaries. A major weakness of the GEA has been that it only applies to a minority of the IFC's FI clients. This is partly because the GEA only applies to some equity clients (not including private equity funds), yet only 31% of the IFC's FI investments have involved an equity acquisition since May 2019.¹⁰² From the start, the IFC's Paris alignment methodology must apply to all FIs, with clear penalties for those that do not comply.



4) Ensure transparency and full, prior public disclosure. It is unacceptable that investments, such as in Equity Group Holdings and SeABank, were disclosed only after approval. The IFC should ensure that all FI investments with a high risk of fossil fuel exposure are disclosed ahead of Board approval. Furthermore, while it is welcome that some IFC equity clients are now disclosing aggregate coal exposure on an annual basis, this should apply to all FI clients. Moreover, all FI clients with fossil fuel exposure should be required to disclose sub-projects linked to coal, oil

and gas, while the IFC should disclose the name, sector and location of these sub-projects on its website as well.



5) Allow for a regular, evidence-based review of the methodology. Despite commitments to publicly consult on its Paris alignment methodology, the IFC has failed to meet this commitment (unlike the EBRD).¹⁰³ To rectify this accountability deficit going forward, the IFC must hold regular, evidence-based, public reviews of its Paris alignment methodology, ensuring the meaningful participation of marginalised groups, to examine its efficacy in partnership with civil society. A public review of this kind would present an important opportunity to ensure existing and future investments made by the IFC are truly green: that they do no harm, prevent human rights abuses and negative social and environmental impacts, and promote gender equity. The IFC must at a minimum uphold and implement its Performance Standard requirements in its FI investments, including ensuring meaningful consultations with civil society and affected communities throughout the planning, implementation and monitoring of higher risk investments.



6) Prioritise a gender-just approach to Paris alignment. At present, the IFC's approach to gender is confined to ringfencing a handful of investments for women-led enterprises, but it does not cover the highly gendered impacts of fossil fuel development.¹⁰⁴ The IFC's Paris alignment methodology must include accessible and independent gender-responsive grievance mechanisms. The IFC should also mandate gender assessments and action plans for all energy investments, to assess the gendered impacts, inequalities and power imbalances each one may entail.



7) Address past harms and support the right to remedy and reparations. The IFC must be held to account for past harms caused by fossil fuel investments it has supported over the years. To address this, the IFC should commit to work with its clients in ensuring remedy is provided and future harms are prevented in consultation with affected communities, particularly addressing any issues raised by marginalised groups (including Indigenous Peoples, women, and sexual minorities). As a first step, the IFC should commission third party assessments of alleged harms, in consultation with local communities, and where they are identified, produce recommendations about how they can be remediated. The IFC's current proposal for an "Approach to Remedial Action" represents an opportunity to improve current practice - however, the draft paper it published along with the Multilateral International Guarantee Agency (MIGA) in February 2023 fell woefully short of expectations.¹⁰⁵ We call on the IFC to engage closely with civil society during upcoming public consultations to bring its proposed remedy framework into line with international human rights standards.



8) Support clients to scale up finance for renewable energy. It is not enough to simply 'stop the bad' when it comes to aligning energy investments with a 1.5°C world - the IFC also needs to support FIs to shift finance from carbon intensive sectors towards green, low-carbon technologies. The IFC could play a key, catalytic role in ensuring a swift and radical transformation of energy systems by helping to shift private financial flows. Climate friendly investments must avoid dangerous false solutions such as fossil gas, fossil hydrogen and carbon capture, utilisation and storage, and must not further place the burden and cost of the transition on communities who had done least to cause climate change, including women and Indigenous Peoples.¹⁰⁶ Efforts to implement measures towards a just transition must be based on the principles of social justice, meaningful work, self-determination, reducing consumption and promoting ecological resilience in addressing the climate emergency. The IFC should exclude any FI investments and sub-projects with a high risk of physical or economic displacement and highly detrimental impacts to community health, safety and biodiversity.

ENDNOTES

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