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Joint Comments on the IFC Green Equity Strategy

We welcome the invitation to engage with IFC in the development of its new Green Equity Strategy, which represents an important opportunity for the World Bank Group to address the climate impacts of its indirect investments through financial intermediaries.

We welcome the initiative of IFC to “green” its equity investments in financial institutions, which will set an example for other international and national financial institutions. Given the urgency of action to avoid catastrophic climate change, we urge IFC to be bolder in its goals, and to be driven by science-based targets, to ensure warming does not exceed 1.5 degrees Celsius.

To achieve these goals, it is important to make firm, clearly defined commitments that are enshrined in IFC policy as well as practice so that these commitments remain a priority at all levels of the institution. These are important first steps toward what should be a progressively stronger approach to addressing the climate crisis, and should be viewed as a strong foundation on which more ambitious commitments can be built.

Recommendations

1. Application to all fossil fuels: While it is welcome that the strategy addresses coal, and undertakes that “the work with clients on reducing coal exposures will also lay the foundation for managing other climate related risks”, a truly green equity strategy should address all fossil fuel exposure, including oil and gas.

- We reiterate our call for the IFC Green Equity Strategy to match the WBG commitment to phase out upstream oil and gas from 2019. **A first step for this in 2019 could be that IFC begin tracking financial intermediary (FI) clients’ exposure to upstream oil and gas (not only coal),** and incorporate a reporting requirement on upstream oil and gas exposure in legal documents with all new FI clients, as is now being done for coal exposure. Upstream oil and gas investments are financially risky, so encouraging the disclosure of these investments should be a part of sensible financial risk management.

2. Addressing debt investments: The IFC presentation on the Green Equity Strategy included existing commitments on debt investments. No longer providing general purpose loans and ring-fencing for targeted purposes can help avoid coal exposure; however, IFC is still providing general corporate finance in other forms, including bond purchases and quasi-equity convertible debt, for which ring-fences do not make sense and cannot possibly be enforced. In these cases, IFC appears to have gone back and attempted to retrofit its description of these investments to meet its new commitments to transparency and ring-fencing. See for example

Axis Bank III, where IFC subscribed to a $100 million infrastructure bond that the bank issued, though IFC now claims that the use of proceeds for this bond is for "Loans to SME Borrowers."

We continue to be concerned that: 1) ring-fencing of debt instruments is not genuine (not legally enforceable, traceable, and audited) and 2) ring-fenced loans free up other funds for FIs to expand their financing of more risky and harmful businesses. See for example, the $57 billion convertible loan to VPBank that IFC says targeted SMEs in May 2017. Three months later, the bank's shareholders voted to convert the loan to equity. The bank's CEO told the Vietnamese press the loan would "provide VPBank with medium capital for foreign-currency loans, as well as contribute to its charter capital to strengthen the capital adequacy ratio." Moreover, the relative size of the bank's SME portfolio *decreased* following these investments, and its lending to state-controlled and other joint-stock companies, including companies developing coal-fired power plants, has substantially *increased*. This raises serious questions about the development effectiveness of these investments.[1]

➢ **We reiterate our call for IFC to ensure that the use of funds for targeted debt investments is** i) **traceable**; ii) **reported annually by the FI client, including a list of projects financed and their expected development impact**, which should be **disclosed** on the IFC website; and iii) **externally audited** (either by IFC or a third-party), with the results of the audit publicly disclosed in order to give the public confidence that IFC investments are being used for their intended purpose. IFC should also report on the development effectiveness of these investments by examining whether the FI's overall lending to the targeted sector increased or decreased following IFC's investment.

3. Disclosure and transparency: The IFC must ensure that its commitments in the Green Equity Strategy are able to be tracked and verified externally, including by civil society. Philippe Le Houérou stated that "IFC transparency is essential to promoting accountability and ensuring good development outcomes" and committed that IFC would require "new equity financial intermediary clients exposed to coal projects to publicly disclose their total exposure in this sector." The Green Equity Strategy should include specific commitments, requirements and criteria on transparency and disclosure, including:

- IFC will no longer invest in new clients or existing clients with new business that do not have a transparency and disclosure policy.
- For existing equity clients with no new business, IFC should use a similar approach to the Green Equity Strategy and request its clients to develop a disclosure policy. IFC should exit clients that do not do so.

[1] IFC provided its first SME-targeted loan to VPBank, worth $50 million, in August 2016. At the end of 2015, before receiving this IFC loan, VPBank's loans to "household businesses and individuals" represented 59.33% of the bank's loan portfolio. At the end of 2018, after receiving a total of $107 million in IFC investment nominally targeted at SMEs, the bank's lending to household businesses and individuals had declined to 58.02% of its overall portfolio. During that same period, VPBank's loans to "joint stock companies with over 50% State ownership or being controlled by the State" and "other joint stock companies" increased from 17.22% to 23.43% of its total portfolio.

- IFC should require its FI clients and support them to develop and set up appropriate internal mechanisms and systems to disclose their coal exposure on their websites as well as on IFC's Project Information Portal.
- IFC should publicly disclose its FI clients' total exposure to coal investments not only in terms of percentage of total portfolio but also dollar value.
- The disclosure of coal exposure should be disaggregated by financial instrument used by its FI clients (project finance, project related corporate loans, general corporate finance, and other instruments such as bonds).
- The disclosure of coal exposure should also be disaggregated by individual client/project name and location.
- Disclosure should also include any blended grant finance from IDA, or guarantees from MIGA and other similar public participation to understand better the subsidy elements.
- IFC should require its FI clients to disclose publicly in their websites as well as in IFC's website their decarbonization plans.

4. **Green Equity Strategy targets and timelines:** We urge IFC to go further in its ambition, in line with the Paris Climate Agreement goal of limiting warming to 1.5ºC and "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development", and ensure that the policy includes clearly defined consequences for clients that do not comply. In particular:

➢ **For existing equity clients:** IFC should divest from all existing FI clients with coal exposure by 2022 unless the client develops a decarbonisation plan and commits itself to not providing any new coal-related finance, including bond underwriting and purchasing, by 2025.

➢ **For new equity clients:** IFC should only invest in new equity clients, i) with a maximum of 15% exposure to coal, and ii) if the client agrees to put in place a decarbonization plan that will result in coal exposure being reduced to zero by 2025.

➢ Coal exposure should be defined as long-term project finance or corporate finance (debt or equity) for companies that meet any one of the following criteria:
  - 1. Percentage Criteria: 30% or more of the company's power production or revenues are coal-based.
  - 2. Absolute Criteria: Companies whose annual coal production equals 20 million tons or more, and companies whose installed coal-fired capacity equals 10.000 MW or more.
  - 3. Expansion Criteria: Companies involved in coal mining, or companies with coal power expansion plans.

  IFC should refer its clients to the Global Coal Exit List for a list of companies that should be excluded from financing.

➢ IFC should integrate the phase out of upstream oil and gas investments into the next iteration of the Green Equity Strategy by 2020.

➢ As well as greening its equity lending, more broadly, IFC must ensure the IFC Performance Standards and the reference documents on thermal power are up-to-date with the latest information as these standards influence an estimated $4.5 trillion in investments across emerging markets.