

CSO recommendations for the new Financial Intermediary safeguard in the IFC Performance Standards

June 2026

Dear IFC Sustainability Team,

Thank you for meeting CSOs in October 2025, and again in June 2026, to discuss IFC's approach to Financial Intermediary (FI) investments and how this can be adapted during the current update to IFC's Sustainability Framework.

Following the IFC info session at the Spring Meetings 2026, when it was confirmed that IFC will be creating a new Performance Standard on Financial Intermediaries, the undersigned CSOs have compiled the following briefing to address how IFC can ensure a more socially and environmentally responsible approach to indirect finance.

This builds on our [previous briefing](#), citing 15 years of CSO monitoring and research on IFC's financial intermediary investments. However, acknowledging that IFC has now begun the process of producing a first draft of the Sustainability Framework, this briefing focuses more specifically on language and requirements that can be adopted in the new safeguard.

Our analysis draws on what we consider to be good policies at peer institutions, useful practices adopted by IFC which should be codified in the new safeguard, and approaches to avoid.

This briefing includes:

1. What IFC can learn from the World Bank's ESS9 on FIs
2. Strong policies and good practice on FIs at other MDBs
3. Recommendations for integrating elements of IFC's 2023 Guidance Note into the new safeguard
4. Issues relevant to FIs that require further attention across the Sustainability Framework

We hope you find this analysis useful, and look forward to discussing our recommendations with you in future.

Yours sincerely,

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1. What IFC can learn from the World Bank's ESS9 on FIs

It should be a clear and explicit principle that aligning with the World Bank's Environmental and Social Framework (ESF), in this case [Environmental and Social Standard 9 \(ESS9\) on Financial Intermediaries](#), should be seen as a floor, and not a ceiling in terms of coverage, scope and application of the new IFC Performance Standard (PS) on financial intermediaries - especially given that the ESF is now 11 years old.¹ The PS on FIs should align and integrate the highest standards in terms of text, requirements, due diligence, and practices.

In terms of **scope of application and portfolio coverage**, we recognise that IFC has a more varied and complex set of transaction types than the Bank, that require a more detailed typology and operational details for FI transaction screening, and sometimes differentiated approaches. However, **the new PS on FI should adopt a counterparty based approach** to ensure the same standards are applied to all FI clients across different products and instruments, to improve IFC's ability to retain leverage with its FI clients. This is a critical consideration given the constant new products, financial instruments, and services under financial intermediaries with broader scope in terms of the use of proceeds and general support.

The new PS on FIs needs to provide more explicit guidance on how the FI client can meet its obligations and responsibilities with respect to a variety of types of financial instruments, transactions, and roles (lender, manager, arranger, underwriter, etc.). **The new PS on FIs should make clear to the prospective FI client that all requirements and standards of each of the Performance Standards fully apply to FIs**, regardless of the financial instrument. Furthermore, it should state that prior to FI investments and guarantee decisions, (1) all high and substantial risk FI subprojects require enhanced supervision by IFC/MIGA and clearance certifying the subproject(s) meets all PSs requirements after release of the environmental and social impact analysis and assessment on IFC/MIGA's public portals for a public review period of 120 days before financial decision, and (2) all PS environmental and social obligations must be also incorporated into the FI's agreements and covenants with the recipient of its financing and guarantees.

IFC's current practice on FIs is quite narrow, limiting obligations to IFC-supported asset classes and timeframes. However, ESS9's scope extends further into the provision of financing or guarantees by FIs to other FIs, and all types of financing and financial products provided to the FI, or by the FIs targeted to productive business and/or economic activities across industry sectors. Furthermore, IFC's current practice on FIs also narrows the application of the Performance Standard to only the financing/investments supported by IFC use of proceeds, while the ESS9 applies to the entire FI subproject portfolio. This is defined as the portfolio of current and proposed subprojects, including projects and activities financed by an FI with the support of the FI supported by the Bank with less granular differentiation by instrument and more system-level oversight.

We recommend that, like ESS9, the new PS on FIs' requirements must apply to all FI clients, investments, and their subproject portfolios regardless of the financial instrument used (debt, equity, quasi-equity, private equity, corporate finance, syndicated loans, trade finance, bonds, etc.) creating in this way a stronger and formal accountability pathway throughout the FI investment chain while maintaining operational flexibility.

Furthermore, ESS9 embeds FI operations more clearly within the ESF vision statement commitment that Bank activities support the realisation of human rights, the ESS10 on stakeholder engagement and inclusion, and the ESF Directive on marginalised and vulnerable

¹ World Bank. (2017). *The World Bank Environmental and Social Framework*, p.91.
<https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ESFFramework.pdf#page=105&zoom=80>.

populations framework. IFC, by comparison, is more focused on transaction level environmental and social risk control. This time, IFC should go a step further and truly align with international human rights standards (and not just make a reference to human rights as “an aspiration goal”). We urge IFC to **incorporate into the updated framework all major UN human rights treaties and ILO conventions** relevant to the subject matter of the new Sustainability Framework, especially the UN Guiding Principles on Business and Human Rights (including the commitment for investors to provide remedy if they have caused or contributed to adverse impacts).

On the other hand, **in terms of the Environmental and Social Management System (ESMS)** requirement, the IFC guidance note on FIs expands more and offers more guidance requiring clients to mirror PS1 in terms of environmental and social due diligence, monitoring, etc. than the ESS9 (which only repeats the structural elements of an ESMS and does not provide guidance of the content, substance, and quality of such policy resulting in uneven quality across investment). **IFC needs to go one step further and strengthen the requirements to offer more clarity and detailed procedures to ensure a functioning ESMS** and reporting of its environmental and social performance at subproject level. Furthermore, it **should also require the FI to commission and report every 3 years** or so an independent third-party audit of the FI’s ESMS implementation and portfolio review.

The new PS on FIs should also have **clear procedures to screen and assess the FI’s E&S capacity, portfolio size, current risks and potential future risk based on its portfolio**, and a commitment to environmental and social sustainability and transparency as determining factors for building a financial relationship with the client or not. The new PS on FIs should also be clear that the level of capacity of a prospective FI client does not affect its responsibilities and obligations under the new framework, but the FI’s capacity sets the level of resources, measures, incentives, and support needed to develop a fully functioning and effective ESMS including an Access to Information Policy and its respective system for implementation.

In terms of **stakeholder engagement and grievance mechanisms**, ESS9 has stronger requirements via ESS10 with explicit system-wide requirements on stakeholder engagement plans and consultation, including a stronger expectation of grievance systems through subprojects, while IFC relies more heavily on the FI commitment and project-level mechanisms. IFC should also go further and offer clear provision for effective remedy to project-affected people should the FI subproject fail to apply the ESMS and where harms occur as a result.

On **transparency and disclosure of relevant information and documentation**, we recognise some improvements IFC made on FI disclosure, mostly related to subproject information disclosure in both private equity funds and commercial banks. However, currently IFC still focuses on a category-limited disclosure approach and does not require systematic subproject disclosure which leads to blind spots in high-risk FI portfolios undermining traceability of impacts and ESMS integrity. IFC should step up its commitment to transparency and adopt the WBG principle of “presumption of disclosure” where “all information is disclosable unless it falls within a clearly defined, limited set of exceptions”. This approach will help establish a baseline transparency expectation for all FIs and help reduce legal ambiguity and overuse of “commercial confidentiality”.

IFC’s new framework and PS on FIs should move from a transactional transparency approach focusing on individual investments to a lifecycle and system-level disclosure approach requiring subproject level information disclosure, annual portfolio disclosure summaries, sector breakdowns, high-risk exposure mapping, and climate alignment metrics. This move will enable better due diligence, public tracking and traceability of impacts by FI clients, improve ESMS integrity and reduce hidden high-risk exposure.

IFC currently places an exaggerated emphasis on client confidentiality, which creates accountability asymmetries and shifts scrutiny away from FIs towards IFC. This fragments compliance requirements, increasing reputational risks, and reducing incentives for accountability in FI lending chains and undermining outcomes' credibility between IFC capital and FI investments and subprojects. IFC needs to create more structured limits to confidentiality through a harm test and exceptions systems to align with the World Bank's approach.

This requires incorporating clear procedures for incentives and sanctions for securing consent and disclosure of financial relationships, project documents and information. These new incentives could be conditioned on disbursements and contractual obligations, tighter and more rigorous supervision and hand-holding standards when there is a failure to disclose information or fully comply with the PSs, or more favourable financing terms where disclosure exists.

Transparency and access to information are at the core of good governance, informed participation in decision-making, and public accountability. And for vulnerable and marginalised communities, the need for transparency and disclosure of project-related information is real and urgent. This is exemplified by the many cases civil society organisations have exposed on human rights abuses and environmental destruction stemming from projects supported through FIs where stakeholders and communities did not have access to relevant project information, its financiers, and the protections and standards that should have been applied. And the blanket justification of client confidentiality for denying information still represents the first major challenge for communities trying to access accountability in FI projects. At present, FI-related comprise 25% of CAO's caseload, a disproportionately low number given that FI lending represents just under half of IFC's portfolio. This is despite the fact that FI investing by its very nature is higher risk - with a longer investment chain and less environmental and social impact supervision by IFC. The main reason for this lack of cases is not that FI projects cause less harm; it is that communities simply do not know that IFC is involved in the project harming them.

The new PS on FIs should have clear requirements and procedures for FI clients to develop an access to information policy and set up appropriate mechanisms for disclosure of E&S documents and information of their investments as part of their ESMS, and for an adequate public review period prior to FI financing decisions. This must include the FI's E&S policies, sustainability frameworks and ESMS, and how transparency requirements will be included in legal contracts with FI clients.

2. Strong policies from FI safeguards at other MDBs

Numerous other DFIs already have FI-specific safeguards in place, including the African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), the Dutch DFI FMO, Asian Development Bank (ADB), and World Bank. Among these existing safeguards, there are plenty of examples of good practice that IFC can learn from. For example, FMO's safeguard acknowledges explicitly that FI financing can carry human rights risks, and addresses the application of the UN Guiding Principles on Business and Human Rights to its FI investments.²

ADB's Environmental and Social Framework (ESF) requires that, for higher risk transactions (FI-1 investments, and substantial risk F-2 investments), all analysis relating to the application of ADB's Environmental and Social Standards - including "any draft or final, if available,

² Danish Institute for Human Rights (DIHR). (2024). *Fit for Purpose? An analysis of development finance institutions' management of human rights risks in intermediated finance*, p.23.
https://www.humanrights.dk/files/media/document/2024_04_10_Fit-for-purpose-DFI-intermediated-finance_EN_04.pdf.

documentation prepared by FI borrowers/investees and submitted to ADB relating to the E&S assessment of such transactions” - is to be disclosed to ADB and for public review prior to a FI financing decision.³ ADB’s ESF further provides that FIs must meet the requirements of ADB’s Environmental and Social Standards. There are some weaknesses in this approach however; it is left to ADB to determine how early the disclosure should be and which FI-2 investments present enough risk to require disclosure. IFC should build on this approach by disclosing all analysis relating to how FIs will apply the requirements of the Sustainability Framework at least 120 days before any FI project is approved, as well as disclosing any monitoring reports and E&S assessments to be financed by the FI on an ongoing basis.

Further, analysis by the Danish Institute of Human Rights highlights several areas of good practice in EBRD’s safeguard on financial intermediaries. This includes **requiring the FI to conduct site visits for high risk investments, requiring the FI to retain third party experts to review high risk projects, and requiring all FIs to have grievance mechanisms in place.**⁴

EBRD’s Environmental and Social Policy also includes an annex listing types of Category A projects that present significant social and environmental risks.⁵ Its FI standard, Performance Requirement 9, makes reference to this list and states that, if an FI is considering financing a project type listed in the annex, that it must be referred to EBRD for approval.⁶ The Asian Infrastructure Investment Bank (AIIB) has an even stronger requirement, with a list of “Higher Risk” activities that encompass not only all Category A but also some Category B activities that require prior AIIB approval. It is notable that these activities include many social impacts, unlike the EBRD Cat A list, and also include human rights risks.⁷ AIIB’s policy is the most specific about when and how FIs must refer Higher Risk transactions to AIIB. Such transactions require AIIB’s prior review and approval that is based on the FI’s “detailed environmental and social due diligence assessment and instruments.”

DIHR states that this is an example of good practice, and highlights similar (although weaker) requirements in place at AfDB and EIB for the FI to refer subprojects that require an ESIA back to the DFI.⁸ As DIHR argues, subproject referral provides access to DFI expertise in handling higher risk projects, and is an important tool DFIs can use to increase their supervision of FI subprojects.⁹ **It is vital that IFC introduces subproject referral requirements into its new FI safeguard, so that it can remain informed of how its clients are investing IFC’s funds and stay aware of any risks (including reputational) that may be presented by the FI’s portfolio.**

Another crucial area where other peers have moved ahead of the IFC is in communication to project-affected communities about IFC involvement, its safeguards and the availability of the DFI’s independent accountability mechanism (IAM) should harms occur. This is perhaps the most effective way to increase accountability and access to remedy. Examples of existing good policy include the African Development Bank’s FI Safeguard which states “The FI will require

³ Asian Development Bank. (2024). *Environmental and Social Framework*, p.155-170.

<https://www.adb.org/sites/default/files/institutional-document/1033311/environmental-social-framework.pdf>.

⁴ DIHR, *Fit for Purpose?*, p.47, p.53.

⁵ EBRD. (2024). *Environmental and Social Policy*, p.28.

<https://www.ebrd.com/home/news-and-events/publications/institutional-documents/environmental-and-social-policy-2024.html>.

⁶ EBRD, *Environmental and Social Policy*, p.97.

⁷ Those are: (i) land acquisition or involuntary resettlement; (ii) risks of adverse impacts on Indigenous Peoples and/or vulnerable groups; (iii) significant risks or impacts to the environment, community health and safety, biodiversity and/or cultural resources; (iv) significant retrenchment; and/or (v) significant occupational health and safety risks. AIIB Environmental and Social Framework (2022), para.28.3.

⁸ DIHR, *Fit for Purpose?*, p.46.

⁹ *Ibid.*, p.45.

that the subprojects disclose the Bank's support to them, the existence of the project-level GRM, and the Bank's IRM, and ensure that this information is clearly visible, accessible, and understandable to affected communities".¹⁰ The InterAmerican Development Bank, meanwhile, requires its clients to communicate with affected communities during consultations - an effective way of overcoming barriers such as illiteracy in marginalised communities, for example; "The Borrower will inform project-affected people about the project's grievance mechanism and the IDB's Independent Consultation and Investigation Mechanism in the course of the stakeholder engagement process."¹¹

The IFC's new FI PS should include clear requirements for project-level disclosure of the IFC's involvement, its safeguards, the project level grievance mechanism and the IAM, and how to reach it. In addition, this disclosure should be in a manner and format that succeeds in reaching diverse and marginalised groups, including those who may not read or speak the mainstream language; and the IFC should commit to monitoring whether clients have fulfilled this requirement at the sub-project level.

3. Recommendations for integrating elements of IFC's 2023 Guidance Note into the new safeguard

2023 Guidance Note on Financial Intermediaries

In September 2023, the IFC published a new *Guidance Note on Financial Intermediaries*, to "explain in a practical way certain requirements related to Financial Intermediary (FI) clients and to provide guidance to FI clients and IFC staff in making IFC FI projects consistent with the Sustainability Policy and Performance Standards (PSs), where applicable".¹² Although the Guidance Note states that it does not expand the requirements of the Performance Standards, some of the approaches to FI investments set out in the Guidance Note regarding risk assessment and subproject disclosure do represent a practical step towards better practice from what is required by the existing PS.

As Recourse has argued previously, in the briefing *Financial intermediaries: A new safeguard needed for the World Bank Group's riskiest investments*, it is important that strong provisions from the Guidance Note are reflected in the new financial intermediary safeguard so that they become mandatory for all FI investments, and to ensure clarity between IFC's many different approach papers and strategies on how FI investments are implemented.¹³

What to include

Contextual risk analysis: The 2023 Guidance Note, in paragraph 13, notes that "The E&S risks associated with an FI's lending/investment activities depend on factors such as the contextual risk associated with the countries and regions where the FI operates, the specific E&S circumstances associated with the borrower's/investee's sector and operations, the borrower's/investee's track record, capacity, and commitment to address these risks, as well as the type of financing provided by the FI".¹⁴ Paragraph 14 implies that IFC will integrate

¹⁰ African Development Bank (2023) *Operational Safeguard 9 (Financial Intermediaries)*, Para 28.

¹¹ Inter-American Development Bank (2021) *Environmental and Social Policy Framework*, Para 39.

¹² IFC. (2023). *Guidance Note on Financial Intermediaries*.

<https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>.

¹³ Recourse. (2025). *Financial intermediaries: A new safeguard needed for the World Bank Group's riskier investments*.

<https://re-course.org/newsupdates/ifc-financial-intermediary-lending-a-new-safeguard-needed-for-the-world-bank-groups-riskiest-investments/>.

¹⁴ IFC, *Guidance Note on Financial Intermediaries*, p.3.

contextual risk analysis into its due diligence and transaction review processes.¹⁵ This is cited as an example of emerging good practice on contextual risk by DIHR, and should be included in the new FI safeguard.¹⁶

Supervision of Higher Risk Transactions: The 2023 Guidance Note specifies that “FIs with portfolios to be financed from IFC proceeds that present moderate to high environmental or social risks (i.e., Category FI-1 and Category FI-2) will require higher risk business activities (higher risk sub-projects) to apply the relevant requirements of the PSs”.¹⁷ This assertion that high risk subprojects must apply the PS is welcome. The Guidance Note also suggests that IFC will adapt its level of due diligence and FI supervision to the level of risk associated with each investment. This might include “visits to the FI and, where possible and relevant, to select sub-projects, to assess and support implementation of the FI’s ESMS, particularly in the case of Higher Risk Transactions”.¹⁸ As Recourse has argued previously, this is a welcome addition that should be added to the new FI safeguard.¹⁹

Areas for improvement

Subproject disclosure: As DIHR argues, the 2023 Guidance Note introduces “some additional but limited new commitments” on the disclosure of sub-projects financed by IFC via FIs.²⁰ Paragraphs 62-64 of the Guidance Note include requirements for some subprojects financed by FIs that are private equity funds, commercial banks, or that issue bonds.²¹

These requirements are welcome but, as highlighted above, are limited. As DIHR’s analysis of FI policies across IFIs highlights, disclosure is a prerequisite for accountability when it comes to FI projects. At the very minimum, the requirement in paragraph 63, that Category A subprojects funded via commercial banks are disclosed on the IFC website, should be expanded to include Category B projects. However, a more meaningful approach would be to introduce a broader “presumption of disclosure” where “all information is disclosable unless it falls within a clearly defined, limited set of exceptions” and which sees the disclosure not just of subproject level information, but also annual portfolio disclosure summaries, sector breakdowns, high-risk exposure mapping, and climate alignment metrics.

Furthermore, it is important that IFC improves its implementation of these requirements. At present, only subprojects funded via private equity funds are routinely disclosed on the IFC website. When it comes to the disclosure of subprojects financed via commercial banks, DIHR says that IFC’s implementation “is in the early stage and does not seem comprehensive”. This is confirmed by the recent draft report by the Review Team of the CAO Policy (“IFC’s disclosure website notes that (i)°IFC included relevant conditions in 21 FI investments and (ii)°IFC disclosed relevant sub-project information for 1 FI investment”).²²

Counterparty approach to risk: DIHR’s research on how IFIs approach the ‘ringfencing’ of intermediated financing, in which “the DFI does not take responsibility for the remainder of the FI’s portfolio that may include other types of on-lending and asset classes which may contain higher risk projects”, highlights that IFC’s approach is predominantly focused on ringfencing

¹⁵ IFC, *Guidance Note on Financial Intermediaries*, p.4.

¹⁶ DIHR, *Fit for Purpose?*, p.45.

¹⁷ IFC, *Guidance Note on Financial Intermediaries*, p.2.

¹⁸ IFC, *Guidance Note on Financial Intermediaries*, p.7.

¹⁹ Recourse, *Financial intermediaries*, p.4.

²⁰ DIHR, *Fit for Purpose?*, p.73.

²¹ IFC, *Guidance Note on Financial Intermediaries*, p.14.

²² Review Team. (2026). *Targeted CAO Policy Review: Draft Report for Public Consultation*, p.4.

<https://thedocs.worldbank.org/en/doc/cf6402e3348bc3008a95916f8e73b9fd-0330032026/original/Targeted-CAO-Policy-Review-Draft-Report.pdf>.

debt investments. This is different to the European DFIs which either take a portfolio-wide approach to risk management, or use a mix of approaches.²³ As DIHR notes, this ringfencing approach has many risks, including a missed opportunity to improve FI practices, reputational risks for the DFI by being connected to clients that still finance high risk projects, and narrower protections and denial of accountability for communities.²⁴

We recommend for IFC to take a portfolio-wide approach similar to that adopted by European DFIs. As Recourse has highlighted, this “counterparty-based approach” is already suggested (although is poorly defined) in the joint MDB principles on Paris alignment.²⁵ Although the 2023 Guidance Note makes a step towards adopting an asset class approach, which broadens the scope of FI financed activities that are covered by the ESMS,²⁶ the new FI safeguard should go further and take a portfolio-wide approach. The draft report on CAO’s policy notes, for example, states that even when IFC or MIGA supports only a targeted subsection of an FI’s portfolio, it would “be advisable to have at least some level of risk control (e.g., a basic ESMS) for the FI’s entire operation to appropriately manage this risk”.²⁷

Consumer finance: Although the Guidance Note highlights “lending to micro, small, and medium enterprises; (trade finance); housing finance; consumer finance” as financial activities that IFC’s FI clients are engaged in (para. 15), the Guidance Note has some important conceptual limitations regarding E&S risks for borrowers from these activities. For further details and related recommendations please refer to the section “Microfinance and over-indebtedness” under Section 4 “Areas that require further attention”.

4. Issues relevant to FIs that require further attention across the Sustainability Framework

Integrating the 2020 Green Equity Approach and 2023 update into the Sustainability Framework

The IFC’s Green Equity Approach (GEA), established in 2020 and updated in 2023, represents a significant step forward in terms of IFC’s supervision of FI clients with the potential to invest in environmentally damaging projects, namely coal-fired power plants and some associated facilities.²⁸ Whether it is in the new PS9 or elsewhere in the Sustainability Framework (e.g. in a revised PS3), it is important for these requirements to be maintained and to be made mandatory for all future equity investments with FI clients.

The GEA requires new FI clients to have less than 15% portfolio exposure to coal-related activities at the time of IFC investment, to report annually on aggregate exposure to coal-related activities, and to stop financing new coal-related activities (as of 2023). All of these elements are positive additions to IFC’s approach to FIs and should be integrated into the new FI safeguard.

However, there are also several weaknesses to the GEA in its current form which should be addressed in the process of integrating it into the new FI standard.

²³ DIHR, *Fit for purpose?*, p.31.

²⁴ DIHR, *Fit for purpose?*, p.32.

²⁵ Recourse, *Financial intermediaries*, p.5.

²⁶ IFC, *Guidance Note on Financial Intermediaries*, p.1.

²⁷ Review Team, *Targeted CAO Policy Review*, p.4.

²⁸ IFC. (2023). ‘Greening Equity Investments in Financial Institutions’, p.5.

<https://www.ifc.org/en/insights-reports/2023/greening-equity-investments-in-financial-institutions>.

1. The GEA's definition of coal-related projects excludes captive coal-fired power plants used for industrial applications.²⁹ This is a weakness of the current GEA as captive plants still carry high social and environmental risks, are currently being financed by IFC's clients, and may increase significantly in number in the coming years to support additional demand for transition minerals mining. IFC should therefore remove this carve-out and include captive coal-fired power plants in its definition of coal-related activities.
2. To truly "green" its investments in financial institutions, the GEA should be expanded to limit and phase out the exposure of IFC's FI clients to *all* fossil fuel-related activities.
3. The implementation of the disclosure requirements under the GEA has been, to date, incredibly inconsistent and incomplete. More must be done to ensure that the data on annual aggregate coal exposure of applicable FI clients is disclosed on the IFC website.
4. The updated GEA should designate Urgewald's Global Coal Exit List (GCEL)³⁰ and Global Oil and Gas Exit List (GOGEL)³¹ as the required screening tools for FI clients to assess and limit fossil fuel exposure. Both lists function as reference standards across the financial sector: over 600 financial institutions currently draw on GCEL, and more than 270 use GOGEL to develop oil and gas exclusion policies. Their uptake extends to regulatory bodies: France's AMF and ACPR have referenced both lists in their annual climate assessments since 2020, and the European Insurance and Occupational Pensions Authority (EIOPA) includes GCEL exposure in its quarterly IORP Risk Dashboard.³² IFC itself set a precedent in September 2020, when it announced to adopt GCEL for the Green Equity Approach and urged FI clients to screen their coal exposure against the list.³³ However, the announcement was never fulfilled in practice. Formalising this practice in the new FI safeguard, and extending it to GOGEL, would give the GEA's expanded fossil fuel scope the operational definition it currently lacks.

Microfinance and overindebtedness

IFC's share of investment in the financial inclusion sector is considerable. In FY2025, IFC committed approximately USD 8.8 billion to the financial markets sector ([IFC 2025](#): 17), over 70% of which was directed to MSME lending, consumer finance, housing finance, and digital lending (based on our own calculations using IFC project approval data).

[IFC's Guidance Note on Financial Intermediaries](#) accordingly highlights, among others, "lending to micro, small, and medium enterprises; trade finance; housing finance; consumer finance" as financial activities in which IFC's FI clients are engaged (para. 15; see also E&S Policy, para. 32).

However, while the Framework recognises these forms of lending and financing as financial intermediation in form, the Guidance Note contains important conceptual limitations regarding E&S risks affecting end-borrowers. In practice, this largely excludes borrower-related risks from the substance of IFC safeguards.

These limitations include:

²⁹ IFC, 'Greening Equity Investments in Financial Institutions', p.9.

³⁰ <https://www.coalexit.org/>

³¹ <https://gogel.org/>

³² <https://www.coalexit.org/gcel>.

³³ <https://www.ifc.org/content/dam/ifc/doc/2023-delta/ifc-approach-to-greening-equity-investments-in-financial-institutions.pdf>.

- 1) assuming that, in the case of FIs, there are “typically” no risks associated with internal operations other than working and safety conditions (para. 12);
- 2) assuming that there are no E&S risks associated with “certain types of FI projects (...) such as those focused on retail financing, providing mortgages to individual clients, and student loans.” These FIs are therefore not required to develop an ESMS (footnote 8 on para. 6);
- 3) defining FI risk categories only in relation to the exposure of an FI’s portfolio to business activities (para. 16), thereby conceptually excluding lending practices that may harm borrowers, such as lending beyond repayment capacity, excessive interest rates, coercive collection practices, inadequate restructuring policies, or irresponsible growth strategies in saturated markets;
- 4) excluding the application of the Performance Standards in cases of: a) risk-sharing facilities (para. 2, footnote 3); and b) project finance intended to cover risks associated with SME and trade finance (para. 17, Table 1). Risk-sharing facilities are a common instrument of blended finance in financial inclusion.

These limitations prevent IFC from adequately examining risks and impacts arising from lending relationships during appraisal, supervision, monitoring, and disclosure processes. Despite the Sustainability Framework’s commitment to “do no harm” and to ensuring that “the costs of economic development do not fall disproportionately on those who are poor or vulnerable” ([E&S Policy](#), para. 9), accountability for risks and harms affecting borrowers is not clearly ensured.

This conceptual gap is particularly concerning in contexts characterised by market saturation and intense competition, which can significantly increase over-indebtedness risks ([CGAP 2010](#); [Guérin et al. 2018](#)).

Evidence from countries including India and Cambodia points to severe social impacts associated with saturated lending markets and rising household indebtedness: multiple borrowing, distress-driven asset and land sales, reduced spending on food and healthcare, school withdrawals, enduring psychological stress, and, in extreme cases, debt-related suicides (see submissions to IFC by a) [Dvara Research](#) and b) a group of [19 researchers and microfinance experts](#)). These concerns were also the subject of a [complaint to the Compliance Advisor Ombudsman](#) involving 13 IFC-supported microfinance projects in Cambodia and are concerns that are also emerging in recent cases filed at the CAO on health, which highlight distress driven borrowing in health emergencies.

The same conceptual limitation is reflected in IFC project classifications. For example, [IFC’s 2025 investment in CreditAccess Grameen in India](#) received an FI-3 classification despite the ongoing over-indebtedness crisis and a [report](#) that many borrowers held loans from multiple lenders. More generally, there appears to be a paradoxical tendency in risk classification: the more economically vulnerable borrowers are, the lower the perceived social risk often appears to be.

More broadly, the assumption of “minimal or no risks” associated with retail, consumer, housing, or MSME lending contrasts with the [OECD Consumer Finance Risk Monitor 2026](#), which identifies high levels of household debt as one of the most significant demand-side risks facing consumers.

To avoid contributing to over-indebtedness and related adverse social impacts, and to ensure alignment with the overarching principles of the Sustainability Framework — particularly positive development impact, “do no harm”, and the protection of poor and vulnerable groups — we strongly recommend explicitly integrating borrower-related financial consumer risks into the FI Standard. This would also align IFC more closely with international standards such as the

OECD Guidelines for Multinational Enterprises, the [G20/OECD Principles on Financial Consumer Protection](#), and the [OECD Recommendation on Consumer Protection in the field of Consumer Credit](#).

More specifically, we recommend integrating the following measures into the revised FI Standard, as proposed by a [group of researchers and microfinance experts in their submission to IFC](#) as well as [health CSOs](#) regarding borrower-related risks and impacts:

1. IFC's environmental and social (E&S) risk assessment and supervision should explicitly address lending-related risks such as over-indebtedness, debt distress, and borrower protection.
2. Borrowers in MSME, housing, consumer, and digital lending should be recognised as affected communities, particularly where vulnerable groups are targeted.
3. Borrowers should be consulted throughout the investment cycle to assess risks and impacts and validate project assumptions.
4. E&S FI risk categorisation should include risks affecting borrower's well-being, including market saturation, indebtedness, affordability, repayment practices, and restructuring policies. Existing Client Protection Standards alone are insufficient.
5. Microfinance institutions should establish an E&S Management System (ESMS) to monitor and mitigate over-indebtedness risks.
6. IFC's exclusion list for microfinance should cover over-saturated markets, excessive loan costs, and inadequate restructuring practices. The exclusion list should also include all health sector investments via Financial Intermediaries, particularly in high risk, poorly regulated markets.

Trade finance

Trade finance has become the single largest component of IFC's own-account operations, yet it occupies an anomalous position within the Sustainability Framework. Paragraph 15 of the 2023 [Guidance Note on Financial Intermediaries lists](#) trade finance among the FI business lines, but footnote 3 removes it from the asset class approach, the operational mechanism through which the Performance Standards are applied to FI clients. The Framework therefore recognises trade finance as financial intermediation in form, while excluding it from the substance of FI safeguards. Because IFC guarantees under the Global Trade Finance Program (GTFP) and the Global Trade Supplier Finance Program (GTSF) are typically issued within 24 to 48 hours, transaction-level E&S due diligence is not operationally feasible, and which Performance Standards apply remains unresolved in practice. As trade finance is usually classified as FI-3 (minimal or no adverse E&S impacts) due to its short-term nature, FI clients only need to develop a simple E&S screening procedure instead of an ESMS (see footnote 20 of the Guidance Note; also noted in a CAO report³⁴). Such carve-outs on the basis of assumptions about the low-risk 'short-term' nature of trade finance are problematic from a human rights perspective, as they decouple the E&S rating from underlying transactions.³⁵ They also reduce IFC's leverage over a considerable part of its portfolio, as the FI-3-rating exempts FIs from developing an ESMS in the first place, and may lead to exposure to high-risk projects within the FI's overall portfolio.

³⁴ CAO. (2012). *CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries*, p. 24. https://www.cao-ombudsman.org/sites/default/files/downloads/Audit_Report_C-I-R9-Y10-135%20%281%29.pdf

³⁵ Danish Institute for Human Rights (DIHR). (2024). *Fit for Purpose? An analysis of development finance institutions' management of human rights risks in intermediated finance*, p.23. https://www.humanrights.dk/files/media/document/2024_04_10_Fit-for-purpose-DFI-intermediated-finance_EN_04.pdf.

The only sectoral safeguard the Guidance Note imposes on trade finance is the exclusion of thermal coal, which itself confirms that IFC acknowledges trade finance can channel funds into high-risk sectors. The other exclusions are listed on [IFCs Exclusion list](#). However, disclosure is typically limited to the pre-approved bank and the headline amount; sectoral or geographic information on underlying transactions, ESMS implementation records and information on the recycling of guaranteed funds are not published in a coherent manner. Compliance and additionality cannot be assessed independently, and access to the IAM is not effectively communicated to affected communities. This structural ambiguity contradicts the IFC's mandate as a development institution and its ability to safeguard development additionality.

The [Sahara LPG](#) project demonstrates why trade finance should not be excluded from the application of thorough E&S risk assessments. The short-term nature of many trade finance products is a purely artificial argument against the application of robust E&S standards, and cannot hold in practice. IFC trade finance will enable the operation of the four LPG terminals, whose construction is almost by half funded by an IFC loan. The project has potential environmental and social risks: the LPG terminals signify a lock-in in fossil gas. The trade finance segment, covering procurement, shipping, storage and distribution of LPG, LNG and other fuel products across Africa, extends the scope of IFC finance beyond the proposed LPG terminals and will likely cause additional greenhouse gas emissions. The example shows that trade finance has real-life impacts, requiring a thorough E&S risk assessment. Moreover, Société Générale, the trade finance client involved in the project, provided USD 11 billion in fossil fuel finance in 2025, exposing IFC to significant risks through its portfolio.³⁶

The development of a standalone FI Performance Standard represents an opportunity to clarify E&S standards for trade finance operations, providing more certainty to clients and stakeholders without having to rely on subsequent documents such as guidance notes. Given the increasing importance of trade finance in IFC's portfolio and the increasing complexity of lending instruments, the new FI Performance Standard must therefore cover trade finance explicitly, with requirements calibrated to its short tenor and intermediated structure. This would also follow emerging best practice among MFIs, with the AfDB already explicitly stating its requirements for trade finance intermediaries in an Operating Safeguard.³⁷ We recommend that the Standard:

- Explicitly apply to all IFC trade finance products without exception, including GTFP, GTSF and successor facilities;
- set Paris-aligned eligibility and renewal criteria for pre-approved banks, including a credible transition strategy, an ESMS with portfolio-wide coverage, and defined consequences for non-compliance;
- introduce an E&S risk rating for FI operations based on specific projects/transactions, not on the type of lending, setting clear criteria for the classification of 'short-term' instruments such as trade finance and avoiding carve-outs of entire instruments;
- require portfolio-level disclosure of sectors, geographies and end-uses of trade finance transactions, of the recycling of guaranteed funds, and of pre-approval assessment criteria and outcomes;

³⁶ Rainforest Action Network et al. (2026). Banking on Climate Chaos. Fossil Fuel Finance Report 2026. <https://www.bankingonclimatechaos.org/?bank=Soci%3%A9t%3%A9%20G%3%A9n%3%A9rale#fulldata-panel>

³⁷ African Development Bank Group (2023). African Development Bank Group's Integrated Safeguards System, para 58. <https://www.afdb.org/en/documents/african-development-bank-groups-integrated-safeguards-system-2023>.

- guaranteed access to remedy by communicating the availability of an independent accountability mechanism (currently CAO) to affected parties and requiring pre-approved banks to participate in remedial processes;
- tighten additionality so that IFC financing addresses structural financing gaps rather than substituting for available commercial liquidity.

Capital market transactions

The IFC is increasingly engaging in capital market transactions to mobilise private sector investments. However, these transactions can be complicated and opaque, which can dilute the application of the Performance Standards. This is recognised by the IFC in footnote 21 of the Guidance Note on Financial Intermediaries 2023: *“An FI’s leverage can be limited in, for example, syndicated loans or capital market transactions where there may be no bilateral relationship between the FI and the sub-project, e.g., secondary market transactions, distressed assets acquired through auctions, etc. In such cases the FI will not be able to require application of the PSs at the sub-project level.”*

However, the same guidance note shows IFC’s leniency, instead of making sure that the PS are applied by subprojects in capital market transactions: *“The E&S performance of the subproject will be assessed against requirements of the PSs based on publicly available information and the FI will make a go or no-go decision based on that assessment.”*

This hands-off approach, in which the FI decides on its own to invest in such transactions, coupled with the lack of sub-project disclosure, can increase the risks of investing in projects that cause or are causing E&S harms. Recourse [examined AIIB-supported asset-backed securities \(ABS\)](#) projects with Clifford Capital and Hong Kong Mortgage Corporation, wherein sub-project selection was delegated and was exempt from the bank’s Environmental Social Standards. Both companies’ ABS included projects that lacked engagement with project-affected communities, have caused environmental degradation and displaced communities from their ancestral lands.

We recommend that the FI Standard should:

- Ensure that the Performance Standards are applied to all sub-projects of capital market transactions;
- Disclose assessments made on capital market transactions, including the public information used to make the assessment, prior to project approval or before IFC proceeds disbursed against the transaction (for transactions identified after Board project approval). The assessment must include an explanation by the IFC of why the available information is sufficient to determine the environmental and social risks of the project and compliance with the Performance Standards upon investment;
- Adopting the counter-party based approach and only working with FI clients that do not support projects identified in IFC’s exclusion list, do not support fossil fuel projects and are not involved in higher-risk projects that have caused environmental and social harms;
- Disclose the portfolio assets, especially higher-risk sub-projects, supported by the IFC’s capital market transactions. Prioritise working with FIs that commit to public disclosure of project-level information, including supported sub-projects.

Guarantees

Guarantees issued to FIs which do not have a clearly-defined use of proceeds carry the risk of supporting sub-projects that have negative environmental and social impacts. These guarantees typically do so by supporting lending across the FI's portfolio; and/or creating capital relief, which frees up additional financial resources in the FI's loan book by transferring the risk of potential losses to MIGA/IFC. The freed-up resources can then be used by the FIs to invest in other companies and projects, which can include those that have negative environmental and social impacts. MIGA/IFC also do not disclose the sub-projects of their FI clients which have received such guarantees.

For example, Recourse [analysed MIGA capital optimisation guarantees](#) issued to Banco Santander of Spain to cover the mandatory reserves held by its subsidiary at the Central Bank of Argentina between 2017 to 2025. The guarantees helped Santander to operate legally in Argentina, and freed up funds for the bank to invest in other projects. Without mandatory or measurable targets, the arrangement with MIGA to use the capital relief proceeds for climate finance on a "best-efforts basis" neither binds Santander to use a portion or all of the proceeds for climate projects nor prevents it from investing in upstream and midstream fossil gas and oil projects. The research found out that Santander Argentina financed various large-scale upstream fossil gas and oil projects in the Vaca Muerta region during the years the MIGA guarantees were in effect.

We recommend that the FI Standard should:

- Disclose the portfolio assets, especially higher-risk sub-projects, supported by the MIGA's/IFC's guarantees. Prioritise working with FIs that commit to public disclosure of project-level information, including supported sub-projects.
- Ensure that the Performance Standards are applied to all sub-projects of FI clients.
- Adopting the counter-party based approach and only issue guarantees to FI clients that do not support projects identified in MIGA/IFC's exclusion list, do not support fossil fuel projects and are not involved in higher-risk projects that have caused environmental and social harms.

Industrial agriculture

Industrial agriculture projects have an outsized impact on the climate, on biodiversity, on social equity and on the Sustainable Development Goals. Industrial livestock projects additionally have detrimental impacts on animal welfare and antimicrobial resistance and foster the emergence and spread of disease including zoonoses. These impacts are currently not fully recognised by the IFC, as it classifies most of its clients in this sector as Category B, which implies reduced due diligence and public consultation. This lack of accountability is even worse if/when such projects are financed through financial intermediaries. In these cases, there is no public consultation, and disclosure is only required for Category A projects. As the IFC generally does not classify these projects as Category A, this means there is *the facto* no disclosure. A number of recent examples show that the disclosure pages only mention that there were investments in SMEs or in green/blue/social bonds, without further detail. More disclosure and stricter guidance is needed to ensure that IFC money is not being used to finance industrial livestock, and instead is being used to foster more sustainable food systems.³⁸

³⁸ Friends of the Earth and Stop Financing Factory Farming, 2023. Climate Misalignment: How Development Bank Investments in Industrial Livestock Are at Odds With Their Paris Agreement Commitments. Available at:

- Require Financial Intermediaries to comply with the IFC Performance Standards and guidance notes for all their finance, not just for the projects financed with IFC
- Require full disclosure of all planned transactions above USD 1 million, in advance of the transaction, to allow for public consultation.
- Require full disclosure of all financed clients, including the name of the client, the amount, the use of proceeds, and the georeferenced location of activities
- Require full due diligence of clients at the corporate group level
- Prioritise finance for sustainable food systems and agroecological practices

Heavy industry and manufacturing

Heavy industry presents a unique challenge for IFC's climate commitments because a growing share of financing for emissions-intensive sectors such as cement, steel, chemicals, and mining flows through financial intermediaries rather than direct IFC investments. This creates a significant gap in climate governance, particularly where FI clients support captive coal power, fossil fuel infrastructure, or high-emitting industrial assets through corporate finance, credit lines, and other portfolio-level financing structures.

As a result, IFC can claim Paris alignment at the institutional level while IFC-linked financial flows continue supporting long-lived fossil infrastructure indirectly. This disconnect undermines both the credibility of IFC's climate commitments and the World Bank Group's broader objective of supporting competitive, resilient, and sustainable industrial development in emerging markets.

The recommendation, therefore, is not simply stronger exclusion lists. IFC should adopt a portfolio-level approach to climate governance for financial intermediaries that addresses transition risk, capital allocation, and long-term industrial competitiveness. The new FI Performance Standard should recognise that industrial decarbonisation is increasingly a financing challenge as much as a technology challenge, and that intermediary finance plays a critical role in determining whether future industrial investment supports low-carbon development pathways or locks in emissions-intensive infrastructure for decades to come.

To address these risks, IFC should:

- Apply climate alignment and transition-risk requirements at the counterparty and portfolio level, not only at the individual subproject level, to prevent indirect support for high-emitting assets through general corporate finance, credit lines, and other forms of intermediary lending.
- Require FI clients with significant exposure to emissions-intensive sectors to adopt Paris-aligned transition plans, including time-bound pathways to phase out coal and avoid expansion of new fossil fuel-dependent industrial infrastructure.
- Explicitly include captive coal power and other fossil fuel infrastructure serving industrial facilities within climate screening, disclosure, and exclusion requirements. Captive coal

https://foe.org/wp-content/uploads/2023/06/SFFF_ClimateMisalignment_final.pdf; Stop Financing Factory Farming, 2024. Biodiversity misalignment: how development bank investments in industrial livestock are at odds with their commitments under the global biodiversity framework. Available at: <https://stopfinancingfactoryfarming.com/publications/cop16-biodiversity-misalignment-briefer>.

plants remain a significant source of industrial emissions and should not be exempt from IFC climate safeguards simply because they are embedded within broader industrial operations.

- Require portfolio-level reporting on financed emissions, fossil fuel exposure, and progress toward sector-specific decarbonisation pathways in emissions-intensive sectors.
- Ensure that climate-related requirements support industrial modernisation and long-term competitiveness by encouraging investment in commercially viable low-carbon production pathways, energy efficiency, electrification, cleaner fuels, material efficiency, and other measures consistent with national development and industrial strategies.