



# What needs to happen for the IFC to prioritize the Performance Standards?

As the private sector lending arm of the World Bank Group, one of the ways in which the International Financial Corporation (IFC) should add value is by fostering sustainable development through consistent application of its Performance Standards (PSs) across its portfolio. However, monitoring of IFC projects reveals a troubling tendency not to prioritize compliance with the IFC's Performance Standards, as compliance with Performance Standards is not a priority for the IFC or its clients. This is a systemic issue in the IFC's projects at every stage: appraisal, implementation, remedy, and exit.

## Noncompliance with performance standards

Several recent examples demonstrate that the IFC is approving and implementing projects without the required social due diligence, especially regarding the rights of Indigenous Peoples. This occurred in multiple projects, including the [Hidrovias do Brazil](#) project and the planned [Xcaret](#) Hotels project in Mexico. In the case of Xcaret, BIC [found](#) that the IFC inadequately identified and assessed the impacts on Indigenous Peoples and their heritage, underestimated impacts and risks to project affected people and biodiversity, and failed to engage with local communities throughout the project.

As for Hidrovias, the project harmed Indigenous fisherfolk whose livelihoods were threatened by the construction of the transport project.

In Ecuador, the IFC approved a new \$50 million loan in December 2021 to [Pronaca](#), a pig and poultry processor. However, they once again failed to acknowledge the impacts on Indigenous Peoples affected by the company's operations, including the Tsachilas of Santo Domingo. The result has been loss of livelihoods from fishing and tourism for the Tsachilas people as well as a higher incidence of illness and disease among these communities. Similarly in Brazil, the IFC again failed to acknowledge impacts on Indigenous Peoples in the area of influence of [Suzano](#), a \$3.7 billion pulp and paper mill project for which the IFC is providing \$900 million (\$250 million direct and \$650 million syndicated).

In each of these projects, the IFC's client failed to identify at project appraisal that the project would negatively impact Indigenous Peoples, in breach of PS 7, the standard protecting Indigenous Peoples' rights. This means that the requirements of PS 7 were applied to these projects and the Indigenous communities affected by these projects did not receive the protections they were entitled to under PS 7.

Beyond the failure to correctly apply PS 7, BIC also found a troubling trend of a lack of proper environmental and social due diligence. In the [Sal de Vida](#) project in Argentina, [BIC and partners found](#) that the IFC approved a project without properly considering and assessing cumulative impacts on the Salar del Hombre Muerto basin, where eight lithium brine mining projects have been registered and are at different stages of development. Also, in the Suzano project mentioned above, the mill operations will have significant impacts on the overall ecosystem. In both situations, IFC's client has failed to accurately identify and value many environmental and social risks and impacts in accordance with PS 1.

## Lack of Information Disclosure

The IFC is tasked with evaluating whether a client has “successfully” carried out the environmental and social measures agreed upon in the Environmental and Social Action Plan. However, the IFC does not disclose information on how the client achieves and implements all those measures successfully. When there is no public disclosure, it is impossible to know how or if clients implemented the Environmental & Social (E&S) measures. This was the case in the Minerva project in Brazil. In this case, the IFC's withdrawal from [Minerva](#) was never announced to affected communities.

Risks linked to this hands-off and opaque approach tend to escalate in highly repressive contexts. For example, the IFC closed loans early for two projects in the [Xinjiang Uyghur Autonomous Region](#) of China (XUAR), where the Chinese government is committing [crimes against humanity](#). The IFC will not disclose why they divested or how the loans were closed (e.g., whether they were recalled, preemptively repaid, or forgiven) because “In line with our Access to Information Policy, the IFC doesn't typically share specific information about business decisions.” The IFC never disclosed the Environmental Impact Assessment for its Category A lead smelter in the XUAR because they had a contractual agreement with the client not to disclose it. This contractual clause violates elements of the IFC's E&S policy and its Access to Information Policy by broadly interpreting the “exceptions” to disclosure written into the policy. Furthermore, the IFC cannot prove that human health and environmental conditions were safeguarded during its involvement with the lead smelter.

## Is the IFC learning and incorporating the lessons of failed experiences?

These cases reveal a systemic problem embedded in the IFC's staff culture and institutional structures: PSs are not part of the IFC's decision-making process when they decide to lend money to a specific client. For example, the prospective client's E&S capacity and track record and ability to implement PSs are rarely considered as part of the decision to lend (as demonstrated in several projects above). In addition, PSs are not meaningfully included in contractual agreements, so implementation often becomes insignificant to the IFC and its clients. This is reflected in the assignment of a Category B risk rating even when risks are diverse, significant, and potentially irreversible (the cases of Xcaret and Pronaca). Also, in many cases (Minerva, Hidrovias do Brazil), the IFC failed to effectively supervise project implementation by conducting no in-person evaluation and reducing its supervision to client self-reporting.

More worryingly, when harm occurs or problems arise within a project, the IFC's solution is frequently to divest from projects before remedying negative impacts or project-related harm. This leaves affected communities without proper recourse, even in cases where the MDBs' accountability mechanisms have found the client to be committing harm and the IFC to be in non-compliance with its own standards.

When the IFC exits a project without using its leverage as an international development institution to address these harms, it becomes more difficult to hold the client and the IFC accountable for the harms generated by the project. However, the IFC holds responsibility if harms occur and should provide remedy post exit.

The IFC does not seem to be learning from these experiences, because it continues to approve and implement projects without addressing major red flags. These cases represent a small sample of what might be happening at a broader level.

## What is happening at the IFC?

Since the adoption of the current PSs in 2012, civil society and communities have identified and reported several shortcomings. These include gaps in policies governing financial intermediary (FI) lending, transparency, and disclosure of its high-risk FI clients' project information. More important,

however, are the gaps in implementation, such as the lack of capacity to properly oversee and supervise the correct implementation of PSs by the IFC's clients and a lack of focus and engagement with communities.

In 2019, the IFC's CEO Philippe Le Houérou [acknowledged](#) that the IFC needed to increase the focus on communities and "do much better at meaningfully engaging with them." The IFC then put a plan in motion to improve compliance with PSs by strengthening oversight of high-risk projects, setting E&S risk ratings for all projects, incorporating learning and adaptation functions, and more. However, in 2023, these measures have only been partially implemented and are wholly insufficient. The IFC developed two separate documents, a draft Approach to Remedial Action and a draft Responsible Exit Principles in response to many of the problems identified in 2019, but civil society and the World Bank's Board of Directors have raised [significant concerns](#) that the drafts fail to lay out a framework for determining when and how the IFC and MIGA would contribute to remedy when they contribute to harm. They also do not sufficiently prioritize the values of transparency and participation of impacted communities in planning for a responsible exit from projects.

## What needs to change at the IFC?

As a first step to effectively address the structural issues mentioned above, the IFC must review and improve the Performance Standards, Access to Information Policy, and Remedy and Responsible Exit approaches. The second step is to give the Sustainability Policy the institutional standing it needs, meaning E&S risks must be evaluated in tandem with financial risks and weighted equally. Every level of the IFC needs to not just acknowledge, but genuinely believe, that PS compliance is just as important as project completion and financing. PS compliance has to be a priority for the IFC because while the client's priority is access to public finance, the IFC has an obligation to sustainable development. Finally, the IFC must fund its E&S team sufficiently to enable personnel to conduct fieldwork in all high- and mid-risk projects.

While the IFC management's responsibility for using leverage to enforce its Sustainability Framework, including client implementation of the Performance Standards, is clear, the Board also has a role to play. The IFC Board of Directors should use its authority to:

1. Require the IFC to report on and disclose the terms of closure (e.g., loan forgiveness, loan recall, voluntary prepayment without a penalty, sale of equity, write-down of equity) every time a loan or investment is closed early.
2. Require the IFC to document the due diligence undertaken to confirm that exit was not accompanied by unremediated harms.
3. Require that the IFC disclose its final development impact analysis including full details from its Anticipated Impact Measurement and Monitoring (AIMM) assessment system for all projects, and how any shortcomings will be taken as lessons for improving future investments.
4. Demand that the IFC continue to revise the draft Approach and Principles on remedy and responsible exit. The Board should only approve a remedy framework that provides a meaningful and actionable plan for remedying harms that the IFC has contributed to.
5. Request an independent audit of PS compliance across the IFC's portfolio, to identify the root causes behind the numerous examples reported by civil society where the IFC clients have failed to comply with the IFC's PSs.
6. Use the opportunity of the Sustainability Framework review to demand that the IFC rethink the incentive structures around risk assessment, due diligence and supervision, contractual provisions, and institutional culture around PS compliance.
7. Support the IFC in developing a budget that fully resources the human and technical capacity needed to supervise PS compliance across its portfolio.

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