

SUSTAINABILITY

Sustainability is a critical component of IFC's operations and fundamental to achieving development impact. As IFC's business shifts more to fragile and conflict-affected contexts with challenging and complex environmental, social, and governance (ESG) risk profiles, supporting clients in managing these risks becomes increasingly critical. Our ESG approach is anchored in our Sustainability Framework and Corporate Governance Methodology, integral parts of our approach to ESG risk management in our investments. Both the Sustainability Framework and the Corporate Governance Methodology lay the foundation for our client and market-level capacity-building efforts as well as for our sustainability investments, climate and gender work, green and sustainability bond issuances, and impact investing.

STRENGTHENING ESG RISK MANAGEMENT

We continued our dynamic change process to manage E&S risks more effectively by enhancing our internal and external capacity, and overhauling and modernizing our processes, systems and tools.

In FY22, IFC updated its internal Environmental and Social Review Procedures (ESRP) for Investment Operations, which introduced a more efficient, differentiated process for regular and high-risk projects to deliver more business in challenging markets and in a sustainable way.

We strengthened our E&S risk management approach to financial intermediaries (FIs). We clarified the definition of higher risk projects that triggers additional E&S due diligence requirements and enhanced IFC support. We launched IFC's Environmental and Social Management System (ESMS) Diagnostic Tool for FIs, which is designed to assess the quality of an ESMS and benchmark it against IFC's Performance Standard 1 and good market practices.

We continued developing our tools to identify and assess contextual risks in the broader operating environment of projects in support of our E&S due diligence and project supervision. The Contextual

Risk Framework comprises nine dimensions and 33 indicators. We launched the Contextual Risk Good Practice Note for public consultation in April 2022. The note is being revised to address feedback and is anticipated to be finalized in FY23.

We also continued strengthening IFC's institutional capacity and approach to grievance response, with a focus on proactive and early resolution of complaints as well as enhancing project-level grievance mechanisms to better handle complaints.

For our clients and the broader market, we offer a series of publications and tools to support best practice adoption in respect of sustainability and corporate governance issues. In the last fiscal year, our external publications tackled topics such as women in business leadership, internal controls, grievance mechanisms, and gender-based violence prevention. We also offer training and guidance to our specialists and staff on emerging ESG issues. Where possible, we use an "integrated ESG" approach, for example by leveraging our corporate governance investment due diligence to support the effective oversight and management of gender-based violence and harassment.

IFC AS AN ESG STANDARD SETTER

The value of our standards goes far beyond managing ESG risks and enhancing ESG performance in our portfolio. The broad adoption of IFC's standards among development finance actors and emerging market participants helps create a benchmark for ESG practices to foster continuous improvement of ESG performance for private firms in emerging markets.

IFC's Environmental and Social Performance Standards have been accepted by financial institutions, export credit agencies, and development finance institutions across the world. Through our partnership with the Equator Principles Association and collaboration with the OECD, we delivered a series of learning events on key E&S issues. We play an active role in the Corporate Governance Development Framework, which convenes 35 development finance institutions using the Corporate Governance Methodology as a common approach to corporate governance risks and opportunities in investment operations. To translate our ESG approach to capital markets, we launched the ESG Performance Indicators for Capital Markets, allowing emerging market companies to disclose through platforms such as ESG Book, of which IFC is a founding partner. We have strengthened our partnership with the United Nations Sustainable Stock Exchanges initiative (UN SSE) to cover areas such as disclosure, women in business leadership (including updated guidance on how exchanges can advance gender equality) and sustainability for small and medium enterprises. IFC, in collaboration with the UN SSE and the CDP (formerly known as the Carbon Disclosure Project), offered Task Force on Climate-Related Financial Disclosures (TCFD) training courses. These courses reached 8,600 participants in 33 markets, with 5,800 participants joining from emerging market locations.

This fiscal year, the Sustainable Banking Network was renamed the Sustainable Banking and Finance Network (SBFN) to reflect its engagement in the broader financial sector ecosystem, including capital markets, pensions, insurance, and asset management. IFC hosts the SBFN Secretariat and provides technical assistance to its 72 member institutions from 62 countries in the development and adoption of sustainable finance frameworks. This year, SBFN is celebrating its 10th anniversary. Over 500 participants from more than 100 countries gathered for its seventh Global Meeting held in April 2022, to discuss policy frameworks for a strong pipeline of sustainable investments across emerging markets.

ADDRESSING CLIMATE RISKS

We are working on the development of an ESG module for IFC's climate risk assessment tool. This module will leverage the Performance Standards and Corporate Governance Methodology to identify project-level impacts, conduct risk assessments, propose adaptation measures, assess internal controls over climate risks and the consideration of climate risks and opportunities in sponsor strategy, supporting our commitments relating to Paris Alignment.

We are also updating IFC's Corporate Governance Methodology to include a "Climate Governance" parameter, focused on climate-related risk management in our investment operations. This work will allow the development of an advisory service offering and knowledge products to help boards and senior management address climate risk.

LEVERAGING TECHNOLOGY AND INNOVATION

This fiscal year, we continued the development of an ESG artificial intelligence tool, Machine Learning Environment Analyst (MALENA). Developed in partnership with FIAS, Denmark and the Republic of Korea, MALENA uses natural language processing, machine learning, and prediction analytics to help inform our ESG due diligence. In January 2022, MALENA was selected as a Global Top 100 project for solving problems related to the Sustainable Development Goals through Artificial Intelligence. We have also made progress on the development of IFC's Sustainability Rating Tool (SRT), with the beta launch of the E&S and corporate governance components. The SRT will provide a dynamic ESG rating to improve our internal risk management processes and operational efficiency.