

Reporting Under the Task Force on Climate-related Financial Disclosures

CLIMATE-RELATED FINANCIAL DISCLOSURE

This report is IFC's fourth consecutive disclosure under the guidelines recommended by the Task Force on Climate-related Financial Disclosures (TCFD). The report reflects IFC's continued commitment to maintain and strengthen our climate-related financial risk assessment, management, and reporting practices. All four reports can be found online with links to relevant references.

IFC has its TCFD reporting audited by EY, a recognized third party, as part of the annual review of IFC's non-financial reporting. This review of our qualitative and quantitative disclosures helps us improve our TCFD reporting every year and ensures that the information provided is material to investors and in-line with global best practices.

GOVERNANCE

- Describe how Board considers climate-related issues when reviewing and guiding strategy, policies & objectives; and monitoring implementation and performance.
- Describe how management monitors climate-related issues.

STRATEGY

- Describe the resilience of IFC's strategies to climate-related risks and opportunities.
- Consider a transition to a lower-carbon economy consistent with a 2°C or lower scenario.

RISK MANAGEMENT

- Describe the risk management process for identifying and assessing climate-related risks.
- Describe how the processes for identifying, assessing and managing climate-related risks are integrated into overall risk management.
- Provide internal carbon prices where applicable.

METRICS AND TARGETS

- Describe the methodologies used to estimate climate-related metrics.

GOVERNANCE

What's New?

- Climate Business Department joined the investment Vice Presidency Unit, further mainstreaming climate into investments and reporting to Senior Vice President of Operations
- Broadened the network of Climate Anchors to include senior staff from risk, treasury, strategy, and Upstream departments

IFC's **climate business and risk are overseen by IFC's Managing Director and Executive Vice President**, who reports to the President of the World Bank Group on climate business performance and climate risk evaluation. The World Bank Group President reports to the World Bank Group (IBRD, IDA, IFC, MIGA) Board of Directors. The Board has mandated as part of the recent capital increase that IFC meet several climate-related requirements, including screening all investments for climate risk, aligning new investments with the Paris Agreement by end of FY25, and scaling climate-related commitments by 2030.

The President of the World Bank Group sets the Group's public climate targets. Progress on targets is reported to the IFC Management Team and the Board as part of the Corporation's Quarterly Board Reports. Separately, the Bank Group also reports annually to the Board of Directors specifically on climate including progress toward all climate commitments (see Metrics & Targets section below for further details).

IFC has a **dedicated Climate Business Department** that provides deep in-house expertise on climate. The Climate Business Department helps set corporate climate strategy and supports investment teams to identify climate investment opportunities and mitigate climate risk. This year the Climate Business Department has been further integrated with IFC's operations. Previously included within the purview of the Economics and Private Sector Development Vice President, climate is now housed under a new Cross-Cutting Solutions Vice Presidency under the Senior Vice President (SVP) of Operations. The reorganization will strengthen operational oversight of climate change as a key implementation priority. The SVP will continue to report on IFC's climate business and risk to our MD and Executive VP.

The Climate Business Department supports the analysis of climate risk through tools such as carbon pricing and assessment of transition and physical climate risk in investment projects. It also works with mainstream investment and business development teams to identify low-carbon investment opportunities through its industry sector experts, metrics specialists, finance professionals, and strategists. The Department provided a

technical briefing on climate finance to the Board on May 25, 2021, and will be reporting individual climate finance numbers to the Board going forward.

IFC's **Climate Anchors Network** continues to integrate climate business throughout the Corporation. The Climate Anchors Network comprises senior staff in each industry and regional department as well as key operational departments including Legal and Compliance Risk, Corporate Risk Management, and Environmental and Social teams. Regional and departmental Climate Anchors jointly report to their department Director and to the Climate Business Director. This year, a credit officer, a specialist from IFC's Upstream department (IFC's new market development unit), a senior syndications officer from the Treasury department, and a principal strategy officer on IFC's global sustainability strategy joined the Climate Anchors Network.

IFC **regularly consults with peers** to further common understanding of good practices. The TCFD informal working group of multilateral development banks (MDBs) convened by IFC in the last fiscal year continues to gain momentum, encouraging the sharing of new approaches to help each organization integrate TCFD more comprehensively into their operations. In its capacity as Chair of the MDB Climate Group in the first half of FY21, IFC launched a technical webinar series for MDBs on topics such as evolving standards (e.g., EU taxonomy), adaptation benefit mechanisms, and climate markets (Article 6 of the Paris Agreement.)

IFC has also engaged with 2^o Investing Initiative, Citi, Oliver Wyman, PCAF-Navigant, Potsdam Institute, Standard Bank, Science-Based Targets Initiative, S&P Global Trucost, UNEP-FI, and WSP, among others. More broadly, IFC retains membership in several climate-related corporate leadership initiatives, such as the Principles for Responsible Investment, the TCFD (where IFC is a supporting institution), One Planet Summit, the One Planet Lab, the Global Green Bond Partnership, the Green Bond Principles (of which IFC was elected Chair) the Carbon Pricing Leadership Coalition, and the Fashion Industry Charter for Climate Change (where IFC is a supporting institution.)

STRATEGY

What's New?

- The World Bank Group's new Climate Change Action Plan FY21–25 was endorsed by the Board
- IFC committed to aligning 85 percent of Board-approved real sector operations with the goals of the Paris Agreement starting in July 2023 and 100 percent starting in July 2025
- New Upstream business development unit: Climate percentage of business development actively tracked under Upstream activities
- FY21 own-account investment in climate: \$4 billion
- FY21 mobilization of external private capital: \$3.7 billion

Increasing IFC's investment in climate business.

In FY21, IFC's total climate-related commitments were over \$4 billion, or 32 percent of our new investments (see Table 1). Despite the economic ramifications of the ongoing COVID-19 pandemic, IFC's climate commitments — both own account and mobilization — saw a year-on-year increase.

Climate Change Action Plan. In June 2021, the World Bank Group Board endorsed its new Climate Change Action Plan (CCAP) for FY21–25, which will support countries and private sector clients to maximize the impact of climate finance, aiming for measurable improvements in adaptation and resilience and measurable reductions in emissions.

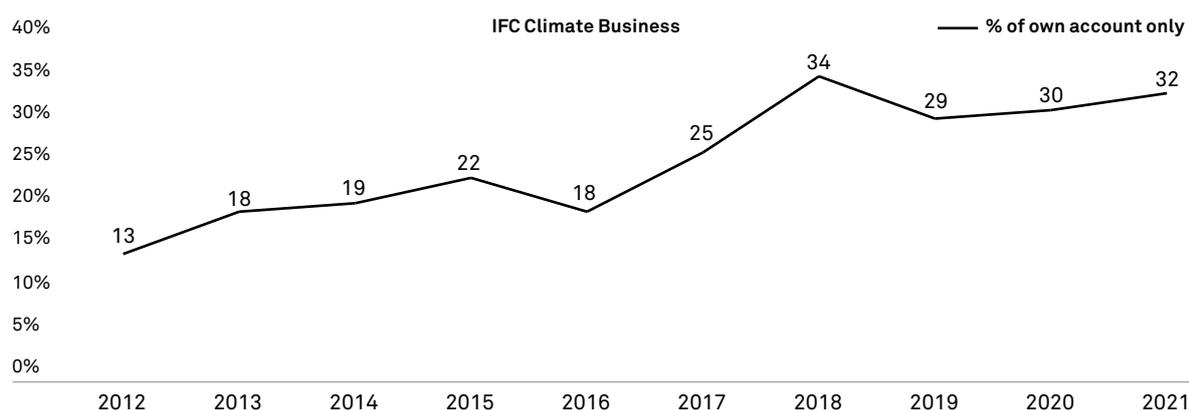
As part of the new commitments, IFC will increase its direct climate financing to 35 percent of total commitments on average over the five-year period, significantly higher than the 26 percent average achieved between FY16–20. IFC is also committed to aligning our financial flows with the objectives of the Paris Agreement. Starting July 1, 2023, 85 percent of Board-approved real sector operations will be aligned with the Paris Agreement's goals, and 100 percent of these will be aligned starting July 1, 2025. A similar approach will be taken for financial institutions and funds once a methodology has been finalized amongst MDBs.

As part of the CCAP, IFC will focus on five transformative key systems that generate over 90 percent of global GHG emissions — energy; agriculture, food, water, and land; cities; transport; and manufacturing. Each is underpinned by our investments and products through local financial institutions. We recognize that many carbon-intensive industries such as cement, chemicals, steel, and heavy transport are essential to economic development and are currently without low-carbon alternatives. IFC is helping carbon-intensive client

Table 1: Climate Change Commitments: Five-Year Trend

TOTAL CLIMATE FINANCE COMMITMENTS (US\$ MILLIONS)	FY21	FY20	FY19	FY18	FY17	FY16
Own account long-term finance (LTF)	\$4,021	\$3,324	\$2,603	\$3,910	\$2,996	\$1,986
Core mobilization	\$3,610	\$3,500	\$3,172	\$4,542	\$1,775	\$1,285
Total	\$7,631	\$6,824	\$5,775	\$8,452	\$4,771	\$3,271

Figure 1: IFC Climate Business as a Percentage of Total Own Account Commitments: Ten-Year Trend



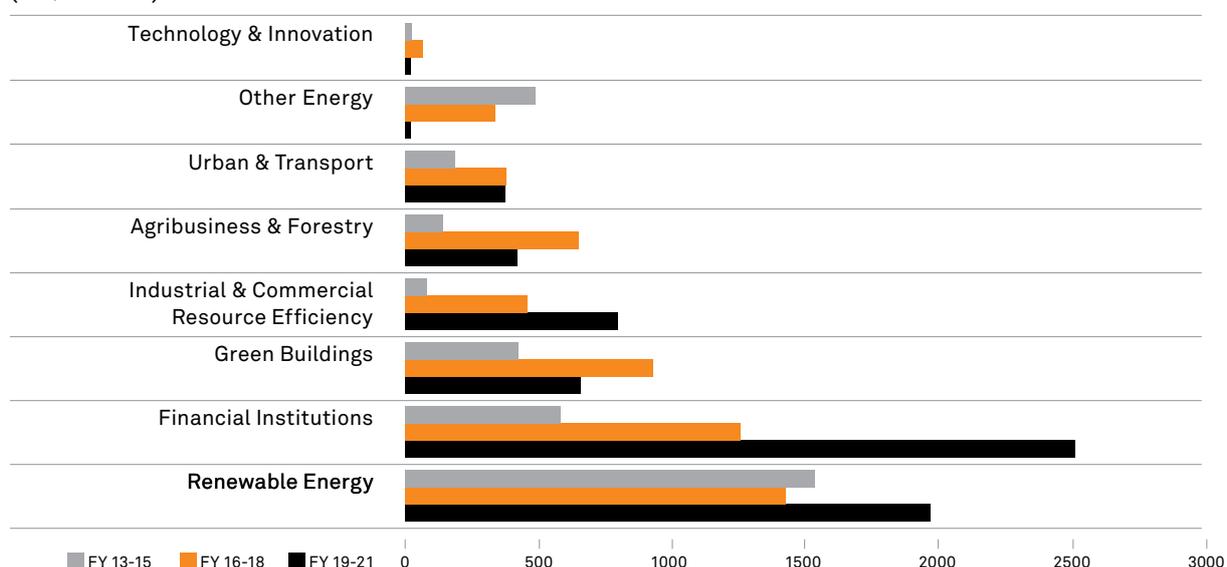
companies to decarbonize their business and improve financial sustainability, ultimately reducing the carbon risk of IFC's portfolio.

Integrating low-carbon and resiliency across sectors. IFC continues to diversify our climate business, identifying new areas of growth. In

FY21, IFC retained strong climate business (our own account investment as well as mobilization) through FIs (\$3.4 billion), and in resource efficiency (\$1.6 billion), renewable energy (\$1.4 billion), green buildings (\$611 million), and climate-smart agribusiness and forestry (\$341 million).

Table 2: Three-Year Average Climate Investment in Key Sectors Total (Own Account + Mobilization)

(US\$ millions)



Targeting new areas of growth: In addition to growing IFC's existing climate business, IFC continues to target new areas of growth.

- **Buildings:** In FY21, we expanded our EDGE green buildings team with two new hires, reflecting our belief that this sector presents a significant opportunity for climate-smart investment. IFC's EDGE certification now includes EDGE, EDGE Advanced, and a zero-carbon certification. In the last year, IFC has expanded its green buildings offer to warehouses and banks. Drawing from our experience with EDGE, we have also developed and are piloting the Building Resilience Index, a new tool to help building developers assess and report to banks and insurers location-specific climate change related risks and risk mitigation measures that address these risks.
- **Transport:** IFC supports the WBG approach to low-carbon resilient transport including integrated transport systems (including public transit), digital technologies, commercial transport (including shipping), and increasing the share of electric vehicles in the global fleet — particularly as the global power sector decarbonizes. A near-term IFC focus area is electric buses for public transit in cities, which will combine some of these approaches, leverage IFC's Upstream programs to develop a pipeline of new investments and enhance IFC's experience in the sector.
- **Manufacturing:** IFC finds that the largest mitigation potential in manufacturing globally lies in energy-intensive and material conversion industries. IFC will transition its investments across heavy manufacturing industries by applying three key principles. First, IFC will not support new coal-fired power projects or wet process plants in cement. Second, IFC will differentiate the sustainability and climate "bar" for investments based on the development stage of client countries and will promote progressive transitional sustainability improvements. Third, IFC will assess each project's sustainability and climate-related drivers, such as energy source and alternatives, materials used and alternatives, products produced and alternatives, and process technology, striving for best-in-class production processes.
- **Cities:** In FY21, we launched the new Advance Practices for Environmental Excellence in Cities (APEX) initiative to help build markets and also identify low-carbon and resilient investment opportunities in cities.
- **Energy:** In addition to continuing investments in traditional renewable energy, IFC is building its investment potential in new technologies such as offshore wind, hydrogen, and battery storage. Offshore wind projects have mostly been in industrialized countries, however, as the technology costs are declining, IFC is working with the WB and MIGA to create an investment pipeline in emerging economies. Green Hydrogen investments are on a longer-time horizon, however, IFC is building internal capacity and tracking market players.
- **Nature-based Solutions:** As noted in the Climate Change Action Plan, IFC is also examining investment opportunities in biodiversity and nature-based solutions (NBS). IFC is part of the working

group on the Taskforce for Nature-related Financial Disclosure (TNFD), building upon its experience with the TCFD. IFC is beginning to develop sector-wide approaches to integrate biodiversity considerations at the earliest stages of landscape planning, particularly in agriculture and infrastructure. IFC will develop new approaches and business models to support biodiversity finance and explore catalyzing private financing in its client markets.

- **Agriculture:** IFC continues to transition its climate-smart agribusiness by focusing investments in three strategic areas: (i) helping improve productivity while reducing input use and GHG emissions per ton of output, especially through precision farming and regenerative or conservation agriculture; (ii) making livestock production more sustainable while increasing productivity; and (iii) reducing post-harvest losses in supply chains globally (e.g. through improved logistics and distribution, appropriate packaging solutions, modern storage facilities, and cold chains).
- **Sustainable Finance:** IFC is expanding its sustainable finance products beyond green loans and green bonds to offer blue bonds and blue loans, sustainability-linked finance, and climate transition products. IFC has developed a working framework for the sustainability-linked and transition financial features in FY21.

Investing in the Green Rebuild. Given global market challenges resulting from the COVID-19 pandemic, IFC is providing immediate liquidity to clients and planning for investments that help rebuild hard-hit economies. IFC is identifying where new liquidity support to companies in emerging markets can be connected to lower-carbon pathways and a more resilient rebuild. IFC published its Ctrl-Alt-Delete: A Green Reboot paper in FY21, which identified potential investment opportunities of over \$10 trillion in emerging markets in driving a greener economic recovery from COVID-19 and catalyzing a just climate transition. The Climate Business Department works with the industry teams to define our own approach to a green economic recovery and identify potential investments in emerging markets for the same.

Building a pipeline of low-carbon and resilient projects. As part of IFC 3.0, we are increasing our capacity to create new markets for climate solutions. IFC has created Upstream units embedded across industries and regions to build opportunities for investments in three to five years. Upstream activities consist of pre-investment work such as technical assistance, capacity building, and support to private clients and governments including on regulatory frameworks and reform, often in collaboration with the World Bank and the Multilateral Investment Guarantee Agency. Upstream activities prioritize climate-related business development to help prepare markets for a low-carbon future — IFC actively tracks and updates its management team on the climate percentage of our Upstream pipeline, allowing the management team a line of sight on our green business and portfolio in coming years.

In addition, we are working with clients and other financial institutions in emerging markets to improve their climate risk management capacity and their TCFD reporting, which will help IFC have better insight into our investees' climate risk exposure.

Internal incentives. This year, IFC initiated the first-ever **Climate Cup**, co-sponsored by the Climate Business Department and the Disruptive Technologies and Funds Department, to select IFC's most innovative climate project. The virtual competition kicked off with a "Sweet Sixteen" roster of IFC's climate projects dating back to 2005 and was won by Belgrade Waste-to-Energy (WtE), the first privately financed large-scale WtE project in the Balkan region and among the largest Public-Private Partnership transactions in Serbia.

To further create fluency in low-carbon markets among investment staff, the Climate Business Department held **trainings** across regional and operational teams to familiarize staff with key market and policy trends, business opportunities, and available tools and resources on climate business. Some topics covered included evolving markets for green bonds, sustainability-linked and transition finance. The department will continue to expand trainings across regions and tools.

Resilience of strategy. In FY21, IFC road-tested leading market approaches to scenario analysis and found them to be unsuitable for evaluating the resilience and risk of IFC's portfolio, which mainly comprises unlisted, private clients in emerging markets. IFC is now exploring the development of a bespoke methodology.

While we navigate this top-down approach to climate scenario analysis, IFC has begun to implement several interim bottom-up measures to ensure the resilience of our investments. IFC has been conducting deep dives to embed climate into country investment strategies and sectoral strategies for high-emitting sectors like chemicals and power. IFC, along with the World Bank and MIGA, is creating joint Country Climate & Development Reports (CCDRs) that identify the potential, biggest climate opportunities in each country. These reports will be overseen by IFC Vice Presidents and chaired by IFC Regional Directors and led by the country offices. The report writing exercise will further build internal climate capacity in country offices and integrate climate opportunities and risks into the core strategic decisions.

In addition, IFC is developing a systematic methodology to evaluate the alignment of our investments in hard-to-abate sectors with countries' NDCs on a project-by-project referral basis. This is particularly essential for investments in key transition sectors such as gas-fired power in the least developed countries. We are using this analysis to understand where such investments

are acceptable given climate and development realities. IFC's NDC alignment methodology will continuously evolve as we monitor how countries' NDCs are updated and as our business moves toward alignment with the Paris Agreement.

SECTOR SPOTLIGHT:

An Opportunity to Green Cities

As cities grapple with meeting the needs of their growing populations and tackling challenges such as housing, air pollution, congestion, and energy access, there is a strong need and an opportunity to ensure a green approach to urbanization. IFC estimates that there is a \$29.4 trillion climate investment opportunity in emerging market cities around the world, in key sectors such as renewable energy, public transport, waste, electric vehicles, water, and green buildings.

Between FY18 and FY20, IFC invested over \$400 million in the urban and transport sector. We have been working on the development of new global products and initiatives to grow our cities' business in a climate-smart manner. The goal is to prioritize climate-smart investments that help cities leverage strapped public funding by bringing in significant private sector investment to generate jobs while addressing other vital issues like greenhouse gas reduction and resource shortages. To this end, in FY21, IFC launched the APEX (Advance Practices for Environmental Excellence in Cities) Program, a new initiative to green cities.

The APEX Program will support cities to accelerate the implementation of policy actions and investments that significantly contribute to transitioning to low-carbon and resource-efficient growth pathways.

The Program will combine both product development and technical assistance to help cities identify low carbon investments and track their impact, thereby developing a pipeline for climate financing. It will launch a digital tool for diagnostic purposes and create a scalable approach for developing Climate Action Plans. Lessons from pilot cities will be integrated into the APEX approach to replicate across emerging market cities.

APEX will be key to achieving a post-COVID-19 green recovery by identifying investment opportunities and accelerating the implementation of strategies to establish green cities in emerging markets.

RISK MANAGEMENT

What's New?

- Portfolio assessment of IFC's exposure to physical climate risk by sector and country
- Inclusion of carbon pricing assessment in board papers of all real sector projects with annual emissions over 25,000 tCO₂e and known use of proceeds

In FY21, IFC continued to expand our existing climate risk management of both physical and transition risk. IFC continues to integrate climate in its risk, credit, and investment operations via the interdepartmental working group on climate risk that was formed in FY20. Over the last year, the working group convened to integrate climate risk into IFC's investment decisions. In addition, IFC will align its direct investments with the goals of the Paris Agreement, using a screen that covers both transition and physical climate risks (see the section on targets).

Physical risk.¹ IFC screens projects for climate risk in an expanding number of sectors. During project appraisal, IFC's project teams assess potential direct and indirect effects that climate-related impacts may have on the project's financial, environmental, and social performance. Potential risks are further explored and, where necessary, addressed and mitigated through a variety of measures that may include operational or CAPEX interventions. Screening has been mainstreamed for the roads, ports and waterways, airports, forestry, insurance, and pulp and paper sectors; screening for mining and hydropower were mainstreamed as of July 1, 2021. As part of IFC's commitment to the Paris Alignment under the new CCAP, IFC is committed to expanding physical climate risk screening to all real sector projects by FY23, and all remaining projects by FY25.

In FY21, IFC has also developed a forward-looking tool to assess the exposure of IFC's portfolio to key physical climate hazards by sector and country. Identification of elevated exposure to climate impacts corresponds to the combination of sub-sectoral sensitivities, project characteristics, and location. The dominant drivers in IFC's most exposed operations include those related to water, such as water stress, drought, and flood. This tool was validated using our portfolio from 2016 to 2019, which was assessed for physical climate impact using supervision reports.

Transition risk.² IFC uses carbon pricing to address transition risk and avoid stranded assets. Since May 2018, a carbon price is included in the economic analysis of project finance and corporate loans with defined use of proceeds in the cement, chemicals, and thermal power generation sectors, where estimated annual project emissions are over 25,000 tons of carbon dioxide equivalent. IFC includes the impact of the carbon price on the project's economic performance in Board papers. The price levels will continue to be consistent with the High-Level Commission on Carbon Prices and with the World Bank.

IFC follows the WBG practice of not investing in greenfield coal power generation. In 2019, IFC extended this practice to Upstream oil and gas investments. In the last ten years, IFC has had no new investments in coal mining or coal power generation projects.

As part of our efforts to address climate risks and minimize indirect exposure to coal-related projects, IFC does not provide loans to financial institutions for coal-related activities. To further reduce exposure to coal, IFC no longer provides general-purpose loans to financial institutions. Targeted loans are directed to key strategic sectors, such as micro-, small-, and medium-size enterprises, women-owned businesses, climate-related projects, and housing finance. The use of proceeds is disclosed on IFC's Project Information Portal. Through our Approach to Greening Equity Investments for new equity and equity-like investments, IFC seeks to help our financial institution clients increase their climate lending and reduce their exposure to coal-related projects to zero or near-zero by 2030.

As noted above, IFC has begun to assess our investments for how they align with the project country's NDC, which we consider to be indicative of future climate-driven policy changes. For further details, see the *Resilience of Strategy* section.

In addition to minimizing risk in new investments, IFC is analyzing our active portfolio for exposure to transition risk, with the aim to identify key sectors or regions requiring additional risk mitigation focus. In addition to evaluating existing investments, we are developing financial (debt) products in line with the ICMA Climate Transition Finance Handbook that can assist carbon-intensive companies/clients with the transition to a more sustainable pathway. An investment will be considered by IFC as contributing to transition if it displaces higher emitting options or documents negative net GHG emissions provided it supports the penetration of lower-emitting options and aligns with the goals of the Paris Agreement. IFC's decarbonization efforts will be based on ICMA's handbook.

1. Physical risks are those resulting from disruptions and impacts of climate change-related events and can be both acute and chronic. Examples of physical risks include droughts, floods, increasing sea levels, rising temperatures, etc. that may have an impact on supply chains, operational capacity, damage to physical assets, and other aspects of the business.
2. Transition risks are those faced by investors as part of the global shift to a low-carbon economy. Examples of transition impacts include changes in climate and energy policies, a shift to low-carbon technologies, changes in consumer preferences, and reputation and liability issues. Transitional impacts can vary substantially depending on scenarios for policy and technology changes.

Impact Assessment. IFC assesses the expected and actual impact of its projects using scores based on Anticipated Impact Measurement and Monitoring (AIMM) frameworks, including environmental and climate effects. The expected effects are reported to the Board in the project Board Paper and monitored and measured during the life of the project. IFC also reports on aggregate thematic level data — such as expected GHG emissions reduced, jobs created, etc. — in our annual report. In FY21, committed investment projects are expected to help our clients reduce annual greenhouse gas emissions by 12 million tons of carbon dioxide equivalent.

Climate finance targets. In FY21, IFC's climate investments comprised 32 percent of total own account commitments, exceeding the corporate target of 28 percent. As part of the CCAP, the World

starting on July 1, 2025. The assessment is based on a joint MDB methodology to which IFC contributed. It will cover both the mitigation (greenhouse gas) and adaptation (resilience) goals of the Paris Agreement. IFC is leading the MDBs in designing a Paris Alignment methodology to assess intermediary investments. The timeline for the Paris Alignment of IFC's intermediary financing is expected to be announced in October 2021.

Investment disclosure. IFC reports climate finance commitments in this annual report (see page 100) and in the *Joint Report on Multilateral Development Banks' Climate Finance*. In our annual *Green Bond Impact Report*, IFC also reports on the expected environmental impact of projects financed through the green bonds that IFC issues. As a signatory of PRI, IFC is mandated to report under PRI's TCFD-aligned indicators.

Emissions calculations. IFC continues to estimate and report aggregate greenhouse-gas emissions reductions from IFC investments (Scope 3 emissions) through this annual report (see page 89). IFC developed a GHG accounting methodology in FY19 and has been estimating gross and net greenhouse gas (GHG) emissions from its real sector investment projects since FY19. IFC estimates gross GHG emissions for all real sector projects with emissions over 25,000 metric tons of carbon dioxide equivalent, and net emissions on a project-by-project basis for real sector projects where possible. IFC continues to disclose ex-ante estimated annual gross GHG emissions through the publicly available *Environmental and Social Review Summary*.⁴

IFC has been carbon neutral in all our business operations including business travel (Scope 1 and 2 emissions) since FY09. Prior targets have cut energy use in IFC's headquarters by 18 percent (see page 89). In FY19, IFC set a global, internal carbon-reduction commitment to cut our facility-related emissions by 20 percent by 2026, from a 2016 baseline. This target is in line with the World Bank Group's commitment to reduce facility-related emissions by 28 percent over the same period. All remaining emissions are compensated via carbon offsets.

METRICS AND TARGETS

What's New?

- Climate investments comprised 32 percent of total own account FY21 commitments
- IFC developed and is road-testing a draft methodology on Paris Agreement alignment for investments in the real sector
- IFC is developing a Paris Agreement alignment methodology for financial institutions and funds

Bank Group announced that climate investments³ will comprise, on average, 35 percent of IFC's own-account investments over the FY21–25 period. The IFC corporate target is translated to investment teams through departmental and regional climate business targets.

Climate investments are those that reduce GHG emissions or increase resiliency, as measured by joint MDB guidelines. IFC began to apply the updated Joint MDB Methodology for Climate Finance Tracking across its operations in July 2021. The revised metrics include a tightened baseline for existing sectors and the inclusion of additional sectors. The methodology has been updated to account for the evolving market context, limit climate-related risks, and take advantage of new climate opportunities.

Paris Agreement Alignment. IFC will align 85 percent of its Board-approved real sector operations with the goals of the Paris Agreement starting July 1, 2023, and 100 percent of these

3. IFC's Definitions and Metrics for Climate-Related Activities identifies projects and sectors that qualify as climate investments; these definitions are harmonized with other multilateral development banks. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/resources/ifc-climate-definition-metrics

4. IFC Project Information & Data Portal. <https://disclosures.ifc.org/#/landing>.