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**REPORTING UNDER  
THE TASK FORCE  
ON CLIMATE-RELATED  
FINANCIAL DISCLOSURES**

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## CLIMATE-RELATED FINANCIAL DISCLOSURE

This report is IFC's fifth 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 five reports can be found online at [www.ifc.org/AnnualReport](http://www.ifc.org/AnnualReport) 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 stakeholders and is in-line with global best practices.

## GOVERNANCE

### What's New?

- Deepened the integration of climate champions across the organization through the hiring of Regional Industry Climate Business Development Leads
- Developed and rolled out the frameworks for Paris Alignment in coordination with other multilateral development banks (MDBs)
- Discussed with the Management Team and Board the Paris Alignment approach and plans for implementation
- Established a Climate Risk Working Group to oversee the development of methodologies for managing climate risks on the portfolio and balance sheet

IFC's **climate business and risk are overseen by IFC's Managing Director (MD) and Executive Vice President**, who reports to the President of the World Bank Group on all climate commitments such as climate business performance, climate risk evaluation, and Paris Alignment of IFC's operations. The World Bank Group President reports to the World Bank Group (IBRD, IDA, IFC, MIGA) Board of Directors. Following the climate commitments as part of the 2018 capital increase, in FY21 the Board approved IFC's commitment to align its investments with the goals of the Paris Agreement. As part of IFC's capital increase and Paris Alignment commitments, all investments are now screened for physical climate risk. IFC has committed to aligning all new investments with the goals of the Paris Agreement starting in July 2025, and further scaling climate finance in 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 Updates to the Board. Separately, the World Bank Group also reports annually to the Board of Directors specifically

on climate including progress toward all climate commitments (see Metrics and Targets section for further details). The most recent climate update to the Management Team was held on June 27, 2022, and to the Board on July 7, 2022.

Additional touch points with the Board and Management Team are **integrated into our business and reporting processes**, through written and verbal communications including the Investment Operations Report, Annual Portfolio Review (with RAROC on climate and non-climate), Strategic Business Outlook, annual Climate Change Action Plan (CCAP) updates, carbon pricing and climate risk discussions in project Board papers, and deep dives and technical briefings as requested.

Climate is integrated into IFC's organizational structure following a hub-and-spoke model. Responsibility for providing deep in-house expertise on climate and guiding the achievement of our climate targets rests with the hub, a **dedicated Climate Business Department**, which enables the investment departments and others — the spokes — to engage with our clients on climate and broaden our impact. The Climate Business Department helps set corporate climate strategy and shape policy, and supports investment teams to identify climate investment opportunities and mitigate climate risk. The Climate Business Department is housed under the Cross-Cutting Solutions Vice Presidency, currently reporting to the MD. This placement reflects IFC's position that climate change is a key implementation priority to be integrated across all operations, investment cycles, and organizational processes.

The Climate Business Department conducts and supports 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 and align operations with the Paris Agreement through its industry sector experts, climate finance professionals, and policy. It develops and helps implement and monitor tools and approaches such as carbon pricing and climate project tagging.

Recognizing the importance of embedding good climate governance into the boards of our client and investee companies, the department is developing trainings for IFC Nominee Directors to build and improve capacity of investee companies on climate change, including climate finance and climate risk. The department continues to report individual climate finance numbers to the Board.

Since the signing of the Paris Agreement in 2015, IFC has worked closely with the World Bank, MIGA, and eight other multilateral development banks (MDBs) to develop the **Joint MDB Framework for Paris Alignment of MDB Financing**. The definition of Paris Alignment so derived takes into account the specific contexts of the emerging markets within which IFC operates. IFC has coordinated closely with the other MDBs to develop the **Joint MDB Framework for Paris Alignment of Direct Lending** (real sectors) and, along with the European Bank for Reconstruction and Development (EBRD), led the development of the **Joint MDB Framework for Paris Alignment of Financial Intermediaries** (FIs). IFC's Climate Business Department leads and coordinates the development of the frameworks and implementation of Paris Alignment across IFC's operations in close collaboration with relevant industry teams. This governance structure allows for consistency and standardization at this early stage of integrating Paris Alignment into our operations, especially as implementation requires expert judgement and the use of specialized tools. Meeting Paris Alignment targets is part of the performance scorecard for the department. Summaries of the assessment and status of Paris Alignment of individual projects will be included in project documentation at investment review stage, for review by the Investment Committee.

As implementation of the Paris Alignment framework progresses and matures, investment teams will be trained to do the assessments for their projects, with quality review from the Climate Business Department. Assessment for mitigation issues for more complex projects will continue to be centralized within the Climate Business Department. The Department is helping to build capacity in investment teams,

especially Industry Specialists and Environmental and Social (E&S) Specialists who are core to the project teams and will be undertaking the Paris Alignment assessments for projects upon mainstreaming. Assessment for climate risk and adaptation will be mainstreamed over time through sectoral tools and approaches that will allow project teams, via industry and E&S specialists, to conduct project assessments.

IFC has brought on board seven new staff members in the Climate Business Department over recent months to meet the ambitions of its Paris Alignment commitment as well as to help IFC's industry teams build capacity to assess their projects themselves and integrate Paris Alignment into the existing project cycle.

**Climate Risk Working Group.** In FY22, IFC's Corporate Risk Committee approved the creation of a cross-cutting Climate Risk Working Group to oversee the development of methodologies and recommend policies and procedures to measure and manage IFC's exposure to climate-related risks at the portfolio and balance sheet level. The Working Group will be led by the Corporate Risk Management (CRM) and Climate Business departments, with participation from other stakeholders as appropriate. The **Corporate Risk Management** department is situated within the Risk and Finance Vice Presidency and supports IFC's financial sustainability through activities such as capital allocation, financial forecasting, stress testing, and exposure limits management. Within CRM, the climate risk team is exploring the development of tools and methodologies to measure and manage climate risks on IFC's portfolio and balance sheet.

IFC's **Climate Anchors Network** continues to integrate climate business throughout the institution. 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, IFC has begun hiring **Regional Industry Climate Business Development Leads**

for each of IFC's seven regions of operations, who will report to their Regional Industry Directors and to leadership in the Climate Business Department. The role of these leads will be to identify opportunities to unlock more climate business in their regions, including cross-cutting opportunities. Regional and industry teams are also hiring additional staff at all levels to enhance their climate-related competencies and offerings.

IFC **regularly consults with peers** to further common understanding of good practices. The TCFD informal working group of MDBs convened by IFC in 2020 continues to share experiences, discuss challenges, and ideate solutions to help each organization integrate the recommendations of TCFD more comprehensively into their operations.

IFC continues to engage with organizations on climate risk and opportunities, such as 2° 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), the Task Force on Nature-Based Financial Disclosures (TNFD — IFC was a member of the Informal Working Group that shaped the TNFD and is now a member of the TNFD Forum), Race to Zero, the Global Green Bond Partnership, the Green Bond Principles (of which IFC was elected Chair in 2020) the Carbon Pricing Leadership Coalition, the CCS+ Initiative (where IFC is a member of the advisory group), and the Fashion Industry Charter for Climate Change (where IFC is a supporting institution).

Beyond strengthening our own climate governance, we continue to develop and set environmental and social standards through our Performance Standards. In addition, IFC has been supporting the development of green and blue taxonomies, as well as national taxonomies for Colombia, Mongolia, South Africa, Dominican Republic, and others. These domestic taxonomies are national standards that define what is green eligible for investments in those countries.

## STRATEGY

### What's New?

- IFC completed the pilot of the Paris Alignment Framework for real sectors and is now rolling it out across operations
- IFC led and completed the development of the Paris Alignment Framework for intermediated financing
- FY22 own-account investment in climate: \$4.4 billion
- FY22 mobilization of private capital for climate: \$3.3 billion

### Increasing IFC's investment in climate business.

In FY22, IFC's total climate-related commitments were over \$7.7 billion. At \$4.4 billion, our own account long-term finance in climate accounted for 35 percent of our new investments (see Table 1). Despite the economic ramifications of the ongoing COVID-19 pandemic, IFC's total climate commitments saw a year-on-year increase.

**Paris Alignment.** In June 2021, the World Bank Group Board endorsed the new Climate Change Action Plan (CCAP) for FY 2021-25. The CCAP focuses on increasing climate finance to reduce emissions, strengthen climate change adaptation, and align financial flows with the goals of the Paris Agreement. It provides a roadmap on aligning climate and development goals using new diagnostics, prioritizing transition in five key systems that generate 90 percent of emissions and face significant adaptation challenges,<sup>1</sup> and increasing finance to support the transition, including by mobilizing private capital and supporting global efforts to raise and deploy concessional finance.

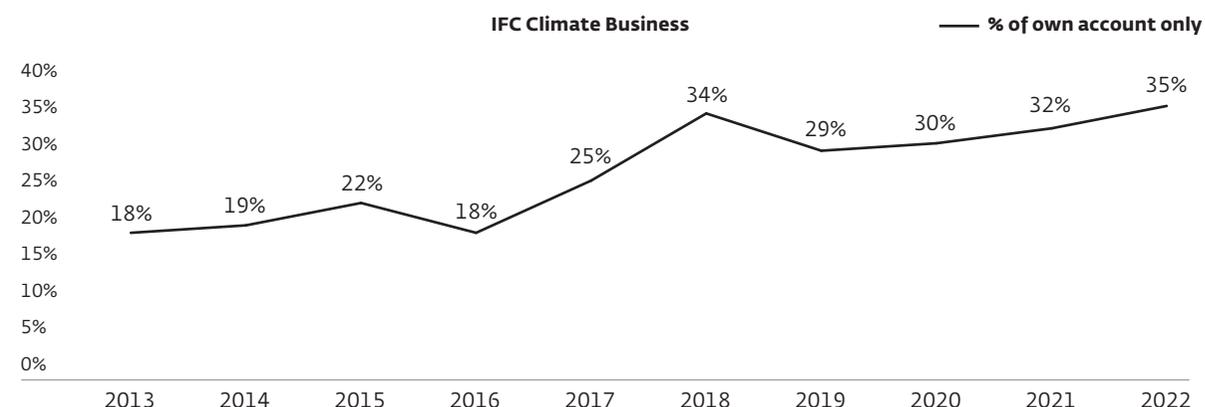
As part of the new commitments, IFC will increase its direct climate financing to 35 percent of total

1. The five key systems that the CCAP focuses on are: energy; agriculture, food, water, and land; cities; transport; and manufacturing.

## Table 1: Climate Change Commitments: Five-Year Trend

TOTAL CLIMATE FINANCE COMMITMENTS (US\$ MILLIONS)	FY22	FY21	FY20	FY19	FY18
Own Account Long-Term Finance (LTF)	\$4,401	\$4,021	\$3,324	\$2,603	\$3,910
Core Mobilization	\$3,346	\$3,610	\$3,500	\$3,172	\$4,542
<b>Total</b>	<b>\$7,747</b>	<b>\$7,631</b>	<b>\$6,824</b>	<b>\$5,775</b>	<b>\$8,452</b>

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



commitments on average over the five-year period, significantly higher than the 26 percent average achieved between FY 2016 and FY 2020. IFC also committed to aligning its financial flows with the objectives of the Paris Agreement. Starting July 1, 2023, 85 percent of all new investments in all sectors will be aligned with the Paris Agreement's goals, and 100 percent of these will be aligned starting July 1, 2025. Our work on Paris Alignment has helped us define an overall climate risk and opportunities strategy that incorporates governance structures, risk management, and metrics and targets.

IFC has been working with its sister WBG institutions and eight other MDBs to create the Joint MDB Framework on Paris Alignment, in order to develop

a common, comparable, measurable definition on what it means to align financial flows with "a pathway toward low greenhouse gas (GHG) emissions and climate-resilient development" as articulated in Article 2 of the Paris Agreement. IFC defines Paris Alignment as providing support to clients in ways that are consistent with low-carbon and climate-resilient development pathways, aligned with the objectives of the Paris Agreement, and consistent with client countries' nationally determined contributions (NDCs), long-term strategies, and other national climate commitments. This includes alignment with both mitigation (Building Block, or BB, 1 of the Joint MDB Framework) and adaptation and resilience (Building Block, or BB, 2 of the Joint MDB Framework) components.

An IFC investment is considered aligned when: (i) on climate mitigation, it has no negative impact on decarbonization pathways; or supports low/net-zero GHG emissions activities in line with decarbonization goals of the Paris Agreement; or generates GHG emissions but is in line with the country's low carbon transition and avoids long-term carbon lock-in; and (ii) on climate adaptation and resilience, it identifies and manages vulnerability to physical climate risks and is considered aligned with a country-specific, climate-resilient development pathway.

In FY22, IFC conducted over 16 Paris Alignment training sessions with a cumulative 1,500 staff in attendance and intends to conduct several more in FY23. These trainings were delivered to IFC staff from across IFC's regions and sectors of operation and leveraged relevant regional and sectoral case studies. Through these trainings, IFC has disbursed internal guidance materials to support capacity building, including Paris Alignment assessment questionnaires, case studies, and factsheets.

### **The integration of Paris Alignment into our operations has changed how IFC does business.**

Paris Alignment requirements are best met when integrated into existing business processes, including due diligence, appraisal, and concept and investment review. Our implementation plan recognizes and reflects this, with project cycle integration and clear definitions of roles and responsibilities of staff across IFC a key element of our roll-out. Climate considerations — both mitigation as well as risk and adaptation — are included much earlier in the project design process, allowing investment teams to both address any climate risks that are foreseen as well as take advantage of the business opportunities presented through adaptation measures and helping clients transition to a low-carbon pathway. Finally, we are also exploring the overlap between climate, especially Paris Alignment, and IFC's Performance Standards to better integrate into our existing client requirements and business practices.

To enable comprehensive integration of Paris Alignment into our operations, IFC has also developed and is conducting trainings for investment staff to help them communicate the commitments and implications of Paris Alignment. To help with this, we are developing tools, guidance notes, and other relevant material. These measures will help our clients in emerging markets to improve their climate risk management capacity and enable them to report in line with the recommendations of the TCFD, which will provide the market — as well as the client — with a better insight into the entity's climate risk exposure.

### **Integrating low-carbon and resiliency across sectors.**

IFC continues to diversify its climate business, identifying new areas of growth. In FY22, IFC retained strong climate business (our own account investment as well as mobilization) through FIs (\$3 billion), and in resource efficiency (\$882 million), renewable energy (\$1.2 billion), green buildings (\$1.2 billion) and urban, transport, and waste (\$1.1 billion).

### **Focus on Financial Sector**

In FY22, IFC's total overall own account commitments amounted to \$12.5 billion, of which 50 percent — or \$6.2 billion — comprised of our work with financial intermediaries. Given that such a significant proportion of our business is in the financial sector, focusing on this part of our portfolio is crucial to integrating climate considerations and Paris Alignment across IFC's operations.

### **Paris Alignment for IFC's Intermediated Financing.**

IFC and the European Bank for Reconstruction and Development (EBRD) led the development of a Paris Alignment framework for intermediated financing in coordination with the other MDBs, which is now complete. Similar to the approach taken for the pilot of the real sector methodology, IFC will begin piloting the proposed methodology for financial intermediaries in FY23. Aligning this part of our portfolio is crucial to integrating Paris alignment across IFC's operations.

Our framework for intermediated financing is two-pronged and includes an approach for

transaction-based assessment (for projects with defined use of proceeds) and another approach for counterparty-based assessment (for projects with undefined use of proceeds). We have begun the pilot of this framework on our business with financial intermediaries that have defined use of proceeds as of July 2022 and intend to roll it out in a phased manner over the course of FY 2023 with an open feedback loop to integrate learnings and course correct as needed before mainstreaming in July 2023. Along with the other MDBs, we intend to publish a technical note on Paris Alignment of intermediated finance for COP27 as was done for the real sector before COP26.

In order to ensure transparency, the Paris Alignment frameworks and methodologies were also discussed with Civil Society Organizations (CSOs) at the WBG-IMF Spring Meetings held in April 2022 under Chatham House rules. IFC intends to engage with CSOs on the Paris Alignment approach for FIs in the coming months. Coordination of the engagement will be undertaken as a joint World Bank Group exercise.

**Enhancing IFC FI clients' capacity.** In addition to ensuring that our own business is climate resilient and low-carbon per the Paris Agreement, IFC recognizes the urgency to help this sector make its business resilient to climate risks and help our clients move toward Paris aligned pathways for climate resilient and low-carbon business. We have developed and continue to expand training on climate risk management and TCFD for both financial institutions and real sector companies. IFC is working with stock exchanges to help them develop disclosure guidelines for listed entities. IFC is the Secretariat of the Sustainable Banking and Finance Network of central banks and regulators, which is helping banks in member countries to implement the recommendations of the TCFD.

IFC offers a range of technical climate assistance, advisory and investments services according to the client's level of maturity and readiness for investment through its Financial Institutions Group (FIG) offerings. This includes capacity building support for climate risk assessment and management to support FIs' alignment with the goals of the Paris Agreement.

Some additional topics that IFC offers advisory services to support clients include access to green finance, green bonds and loans, blue bonds and loans, climate-related disclosure, and decarbonization pathways. Through the Green Bond Technical Assistance Program (GB TAP), IFC helps train banks to understand and issue green bonds. The Green Banking Academy trains financial institutions on the four pillars of a green bank (eco-efficiency (their own footprint), environmental risk management, green products and services, and green strategic commitment) and offers a green finance certificate to professionals. The Climate Assessment for Financial Institutions (CAFI) platform helps our client financial institutions assess the climate eligibility of their investments and estimate the development impact of their climate-related activities. By FY22Q2, 75 percent of active climate partner financial institutions used the tool and reported over \$7.9 billion in climate loans in CAFI, leading to an estimated reduction in emissions of 19.5 million tons of Carbon Dioxide equivalent per year. These advisory programs not only help us build capacity for our clients but also let us set and raise market standards on climate finance, climate risk management, issuance of green bonds, and other important topics.

In addition to the provisions above, IFC is developing and delivering virtual climate trainings directly to financial institutions to create new markets for climate risk and opportunities. Supported by the governments of Japan and the Netherlands, IFC has developed a training module for banks in emerging markets to raise awareness on climate issues as relevant to the financial sector and build their capacity on climate risk management. These webinars and trainings will be followed by one-on-one advisory services provided by the FIG regional teams to help those banks that are interested in integrating climate into their governance, strategy, risk management, and metrics and targets as per the recommendations of TCFD.

Finally, recognizing the need for bankable green projects as a key hurdle to scaling private climate finance under the *Scaling up Climate Finance through the Financial Sector (30x30 Zero) Program*, IFC is working in four pilot countries to help catalyze the development

of a pipeline of green projects in target sectors. This project involves engaging with stakeholders from the public, private, and financial sectors to develop a roadmap of actionable solutions on how to incentivize the development of private sector projects in target sectors. IFC will work with client financial institutions to channel private sector capital into these projects, simultaneously helping to green the financial sector in the pilot countries.

### Exploring Creative Solutions to Target New Areas of Growth:

In addition to growing its existing climate business, IFC continues to target new areas of climate resilience using innovative tools and solutions.

**Sustainability-Linked Finance.** We are helping our clients green their operations based on a clearly identified roadmap of innovative solutions. In FY22, IFC anchored its first-ever sustainability-linked bond (SLB) issuance, a 675 million Singapore dollar offering on the Singapore Stock Exchange, by leading Pan-Asian energy and sustainable solutions provider Sembcorp Industries Limited. The transaction formed the first SLB by an energy company in Southeast Asia and the region's largest such issue to date. Under the SLB terms, Sembcorp committed to reducing its GHG emissions intensity by 20 percent in the next four years, with a 0.25 percent margin step-up if this target is not met.

IFC's investment comprised an own account anchor allocation of 150 million Singapore dollars (approximately US\$110 million) and mobilization of approximately 475 million Singapore dollars (approximately US\$350 million) to be applied toward renewable energy projects and potentially other sustainable assets.

In addition to anchoring the issue, IFC helped Sembcorp develop a sustainable financing framework, including selection of specific performance targets as well as systems and processes for implementation. This successful SLB is expected to contribute significantly to decarbonization efforts by demonstrating best

practice and stimulating other corporates, both in the infrastructure sector and beyond, to adopt similar ambitious sustainability strategies and targets and tap novel financing structures such as SLBs.

### Country Climate and Development Reports

**(CCDRs).** In FY22, the World Bank Group launched a new, core diagnostic tool — the Country Climate and Development Report (CCDR). IFC, the World Bank, and MIGA lead the development of the CCDRs, along with support from the IMF, and active engagement with the private sector, government counterparts, academia, think tanks, and civil society organizations. The CCDRs aim to (i) integrate climate change and development considerations and help client countries prioritize the most impactful actions that can reduce greenhouse gas (GHG) emissions and boost adaptation; (ii) explore opportunities, reforms, and policy instruments to leverage private sector resources and solutions for both climate change adaptation and mitigation; and (iii) inform WBG country engagement products, including IFC's Country Private Sector Diagnostics (CPSDs). CCDRs can serve as an important platform for governments, their citizens, and our partners to engage with the development and climate agenda, supported by better coordination at the country level. CCDRs can also be deployed to more effectively mobilize resources from development financiers, including non-traditional donors and the private sector. In June 2022, the first CCDR — for Türkiye — was released and identified key priorities for climate action to help Türkiye reduce GHG emissions and boost resilience. The World Bank Group expects to publish more than 20 CCDRs in the first half of FY23. These reports will form the foundation for building internal climate capacity, engaging in market development activities in country offices, and integrating climate opportunities and risks into the core strategic decisions.

### Industry-Specific Decarbonization Strategies.

IFC has been conducting deep dives to embed climate into sectoral strategies for high-emitting sectors like chemicals and power. IFC's focus on manufacturing in particular has evolved over the last few years to be centered around carbon abatement, industry

transition to lower carbon pathways, greening of supply chains, waste reduction, and circularity. We look at investments for their ability to support resilience in regional clusters. A core aspect of this strategy is to ensure that our investment evaluation takes a nuanced approach to the development status, needs and economic complexity of a country. In subsectors where full abatement is not possible (heavy industries), we focus on climate transition and lower carbon pathway approaches. These projects are set up in a way that supports the reduction of their emissions over the project lifetime by incorporating new technologies and knowledge, thereby reducing the risk of carbon lock-in. We have developed comprehensive sector strategies and roadmaps for key sectors, such as textiles and chemicals, and are developing more for circular economy, construction materials, electric vehicles (EV) value chain and battery manufacturing value chain. IFC is also providing clients in hard-to-abate sectors with advisory services to support the development of actionable decarbonization roadmaps that assess their carbon footprint, identify cost-effective decarbonization solutions, set targets, and develop investment programs compliant with sustainable finance principles.

**Biodiversity and Nature-Based Solutions.** IFC recognizes that climate and biodiversity are deeply interlinked and managing the risks and opportunities for one is incomplete without also addressing the other. This principle is enshrined within the WBG CCAP for FY 2021-25, and we are working to articulate the business case for biodiversity finance and nature-based solutions (NBS) for both climate mitigation and for green infrastructure solutions. We continue to engage with stakeholders on this issue, intend to grow our own biodiversity finance business, and contribute to the growth of the biodiversity finance market globally. As mentioned earlier, IFC was an early member of the Informal Working Group that shaped the TNFD, and we continue to be a part of the TNFD Forum with likeminded organizations that recognize the impetus for and opportunity in biodiversity finance. We have developed a reference guide on biodiversity finance that fuses conservation needs with sustainable development to provide an indicative list of investment activities that help protect, maintain or

enhance biodiversity and ecosystem services as well as sustainably manage natural resources. This guide was opened for public comment in June-July 2022, to which we received 23 comprehensive responses from entities including non-profits, academia, cooperative financial institutions, international organizations, multiutility operators, and financial and technical advisory firms. Comments focused on a range of topics including impact reporting, data and knowledge sharing, elaboration of ties to the Green Bond and Green Loan Principles, and potential alignment with national and international legislation. After an extensive review process, an updated version of the document will be made public in the coming months. The Biodiversity Finance Reference Guide is a living document, and we expect it to evolve over time as the market develops and matures.

#### SECTOR SPOTLIGHT:

### Blue Bonds and Loans

The ocean generates more than half of our planet's oxygen, is home to most of the world's [biodiversity](#), and offers food and economic opportunities for billions of people. It is estimated that the global value of the blue economy is \$2.5 trillion annually, equivalent to the size of the world's seventh-largest economy. Blue finance is an emerging area in climate finance, with growing recognition from the market of the countless investment opportunities it offers while simultaneously addressing pressing global challenges by contributing to economic growth, improved livelihoods, and the health of marine ecosystems. This principle is enshrined in the World Bank Group's Climate Change Action Plan (CCAP) for FY 2021-25.

IFC has been at the forefront of developing market standards and guidelines on blue finance and launched the [Blue Finance Guidelines](#) in early 2022. This document provides guidance on eligible use of proceeds for market participants and private investments to build the blue economy and requests eligible projects to contribute to Sustainable

**Building a pipeline of low-carbon and resilient projects.** IFC's Upstream units are embedded across industries and regions to lay the groundwork for investment opportunities within a three-to-five-year horizon. In the last year, IFC has prioritized climate-related business development through Upstream and related activities such as scaling up climate finance by greening the financial sector and catalyzing a pipeline of green investments in target markets. IFC is also investigating possible business models for upstream activities in adaptation and resilience. Upstream activities consist of pre-investment work in three categories, often in collaboration with the World Bank and the Multilateral Investment Guarantee Agency (MIGA): 1) creating markets (regulatory reform or standard setting), 2) creating opportunities (through technical assistance to private sector clients), and

Development Goal (SDG) 6 (ensure availability and sustainable management of water and sanitation for all) and SDG 14 (conserve and sustainably use the oceans, seas and marine resources for sustainable development) without compromising other SDGs.

IFC sees a huge opportunity to develop business lines for blue finance. We have pioneered investments in blue finance with key partners leading to several first-in-the-market transactions. In FY22, IFC made its first blue bond investment globally in a subscription of \$100 million in the first blue bond in the Philippines, issued by BDO Unibank, Inc. This was followed shortly by an additional \$50 million investment in the first blue bond by a commercial bank in Thailand, issued by TMBThanachart Bank Public Company Limited. IFC also anchored and mobilized a \$300 million blue loan for Thailand's Indorama Ventures in FY21, exclusively focused on addressing marine plastic pollution. Since 2020, IFC has provided more than \$400 million in blue finance to the private sector, recognizing the untapped potential for clients to grow their blue financing products and services, and to develop a systematic global blue finance market.

3) crystallizing opportunities (project risk structuring and investor mobilization). IFC's management team is regularly updated on the climate percentage of the upstream pipeline, allowing the management team a line of sight on green business opportunities in coming years.

**Resilience of strategy/scenario analysis.** IFC continues to explore how to integrate scenario analysis and climate risk into our overall risk management. IFC has 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. We are in discussion with MDBs, financial institutions, consulting firms and other stakeholders on the most appropriate factors, indicators, tools, scenarios, and data sources to develop an internal approach.

- **Project and asset level.** IFC has begun to implement several interim bottom-up measures to ensure the resilience of our investments. Many of these have been integrated into our Paris Alignment approach and implementation — individual assets and projects are assessed using tools that incorporate climate scenarios. Our previously developed systematic methodology to evaluate the alignment of our investments in hard-to-abate sectors with countries' NDCs on a project-by-project basis has been incorporated into our methodology for BB1 (mitigation). We are evaluating the resilience of our portfolio by also considering carbon lock-in risk and potential stranded asset risk of our investments, in a longer time frame than simply our project tenor. With each project now assessed for adaptation and resilience compliance with Paris Alignment, IFC is building a green, low-carbon, climate resilient portfolio.
- **Sector level.** In addition, we have taken a sectoral approach with transport as a pilot. IFC is working to develop methodologies for applying scenario analysis to all the modes of transport in which we invest, starting with roads. The transport model will allow us to test scenarios by stacking interventions

to maximize the emissions reduction potential of the project. This will serve as a tool to engage further with clients on project design, while supporting our ex-ante GHG emissions estimates of absolute and baseline emissions.

- **Portfolio and balance sheet level.** IFC is exploring how to incorporate climate scenarios into its stress testing framework, as well as the development of other tools to measure and manage climate risks at the portfolio and balance sheet level. The Climate Risk Working Group will oversee this workstream in FY23 and beyond.

## RISK MANAGEMENT

### What's New?

- Tools, methodologies, and approaches for physical climate risk screening developed for 46 percent of IFC's real sectors of operations; 35 percent more underway
- Analysis of IFC's active portfolio for exposure to transition risk, with the aim to identify key sectors or regions requiring additional risk mitigation focus
- Physical and transition risk incorporated into Paris Alignment approaches and roll-out

In FY22, IFC continued to expand our existing climate risk management of both physical and transition risk, by integrating both into IFC's Paris Alignment frameworks.

In its first year of road testing, the framework for Paris Alignment of real sector investments, IFC has assessed 80 percent of real sector projects that were approved in FY22 for alignment with both mitigation and adaptation goals of the Paris Agreement. Assessments are conducted at the concept development stage to ensure that the principles of Paris Alignment are enshrined at the earliest stages of project development.

**Physical risk<sup>2</sup>.** 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.

Physical risk screening for IFC's projects has been integrated into the adaptation and resilience (BB2) component of Paris Alignment, where assessment poses explicit questions on exposure to climate risk and potential opportunities, measures for climate risk mitigation, levels of residual risk after adaptation, potential for maladaptation, and consistency with national contexts for climate resilience.

IFC has mainstreamed the assessment of the risk and resilience component of Paris Alignment (BB2) for 46 percent of real sector operations and is in the process of mainstreaming for an additional 35 percent. In this context, sectors are considered 'mainstreamed' when a methodology or tool has been developed for industry and E&S specialists to be able to conduct climate risk screening for their projects with limited support from the Climate Business Department. Sectors for which physical risk screening has been mainstreamed in this manner include roads, ports and waterways, airports, forestry insurance, pulp and paper, mining, hydropower, solar, wind, manufacturing, water, and sanitation. Methodologies and tools for adaptation and resilience are currently under development for dairy, waste, financial intermediaries, tourism, retail and property (TRP), health and education, railways, and mass transit sectors. We expect to complete the mainstreaming of adaptation and resilience assessments for all real sectors starting in July 2023, thereby completing the integration of physical risk screening into IFC's operations.

In FY22, IFC has also developed two bespoke tools to help industry teams screen in the interim even those projects for which sector-specific tools are in various

2. 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, and other factors that may have an impact on supply chains, operational capacity, damage to physical assets, and other aspects of the business.

stages of development. The GeoViewer tool developed by IFC with support from external consultants, assesses a project's exposure to climate hazards based on location and helps climate specialists provide a comprehensive high-level assessment for adaptation and resilience. It uses over 50 climate indicators and provides data on potential hazards for four different time horizons based on two Representative Concentration Pathway (RCP) scenarios for 50th and 66th percentile probability. The Portfolio Sensitivity tool goes one step further and includes factors such as supply chain and market exposure to provide high-level information on potential financial exposure to climate hazards.

We continue to use previously developed tools in further embedding physical risk screening into our operations, including a forward-looking tool to assess the exposure of IFC's portfolio to key physical climate hazards by sector and country developed in FY21. 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.**<sup>3</sup> Relative to most large banks operating in our markets, IFC has limited exposure to fossil fuels and no exposure to coal power generation at utility scale in our portfolio. As of FY22, renewables represented 69 percent of our power generation portfolio. 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.

Despite our low exposure, IFC is currently examining our portfolio for potentially high-risk projects in carbon-intensive sectors, and potential measures to mitigate transition risk in those sectors. The analysis is based on historical portfolio data covering the last decade of IFC's business, and both total sectoral emissions and sectoral emissions intensity (based on project size). Through this effort, IFC has identified the sectors that comprise our largest carbon exposure: gas distribution, thermal power generation, cement, waste treatment and management, chemicals, glass, and animal production. We will be using these categories to identify which future projects might potentially need to be subject to additional analysis on transition risk.

IFC continues to use carbon pricing as a measure to manage transition risk and avoid stranded assets. Since May 2018, a carbon price has been 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 and viability in Board papers. The price levels continue to be consistent with the High-Level Commission on Carbon Prices and with the World Bank. Carbon pricing is also integrated into our Anticipated Impact Measurement and Monitoring (AIMM) framework where applicable and will become a standard part of Paris Alignment assessments for mitigation for all projects with annual emissions greater than 25,000 tons of carbon dioxide equivalent.

As noted above, IFC incorporates transition risk into our Paris alignment process, particularly for the BB1 (Mitigation component). The assessment process includes analysis of consistency with NDCs, long-term strategies, and regional, national, and sectoral policies on climate change to mitigate policy risk. It also explicitly includes analysis of stranded asset and carbon lock-in risk as criteria for evaluation of Paris alignment for IFC projects. We continue to develop measures to deepen our assessment and management of transition risk.

IFC has developed decarbonization pathways for hard-to-abate sectors such as chemicals, power and textiles, and continues this work for other carbon-intensive sectors. Through our Sustainable Infrastructure Advisory program, IFC supports clients to formulate and implement decarbonization strategies and net zero plans through manageable steps, drawing from over 150 separate science-based solutions and tailoring them to each individual client's needs. IFC offers technical assistance and investment services according to the client's level of maturity and readiness for climate investment, including the development of low-carbon roadmaps and compliance with sustainable finance principles. We support clients in assessing their carbon footprint, setting baselines and targets, monitoring and evaluation, developing results measurement frameworks, and complying with international disclosure requirements and standards. Our counterparty-based approach for Paris Alignment of financial intermediaries also requires clients to commit to decarbonization pathways and better climate-related risk management.

At IFC, **biodiversity risk** considerations are mainstreamed into all IFC projects through the Environmental and Social Performance Standards. Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources and Performance Standard 3 on Resource Efficiency and Pollution Abatement in particular address risks associated with deforestation, impact on species, soil health, pollutants in natural environments, water use, and other risks to biodiversity.

3. 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.

## METRICS AND TARGETS

### What's New?

- Climate investments comprised 35 percent of total own account FY22 commitments
- 80 percent of new real sector projects with known use of proceeds were assessed for Paris Alignment at Concept Review stage
- Responsibility for project GHG accounting was consolidated in Climate Business Department, with effect from July 2022

Climate investments are those that reduce GHG emissions or increase resiliency, as measured by joint MDB guidelines. The **Joint MDB Methodology for Climate Finance Tracking** was updated to account for the evolving market context, limit climate-related risks, and take advantage of new climate opportunities. IFC has applied this updated methodology across its operations since July 2021. The revised metrics include detailed criteria and guidance across sectors. In October 2021, the methodology was published as the Common Principles for Climate Mitigation Finance Tracking, which are applied to the operations of all MDBs, including IFC. IFC has been closely involved in the development and updating of these methodologies.

**Climate finance targets.** In FY22, IFC's climate investments comprised 35 percent of total own account commitments, meeting the corporate target. As part of the CCAP, the World Bank Group announced that climate investments<sup>4</sup> will comprise, on average, 35 percent of IFC's own-account investments over the FY 2021–25 period. The IFC corporate target is translated to departmental and regional climate business targets.

**Paris Alignment.** As discussed previously, IFC is committed to aligning 85 percent of all new investments with the goals of the Paris Agreement starting July 1, 2023, and 100 percent of these starting on July 1, 2025. In FY 2022, IFC screened 80 percent of real sector projects with defined use of proceeds at concept stage for alignment with the Paris Agreement. The assessment covers both mitigation (greenhouse gas) and adaptation (risk and resilience) goals of the Paris Agreement. For mitigation, the methodology covers Scope 1 and 2, and Scope 3 where significant. As discussed above, IFC has also led the MDBs in designing a Paris Alignment methodology to assess intermediated financing, which was finalized in FY 2022. The corporation is committed and on track to achieve both 2023 and 2025 targets for real and financial sector operations.

**Investment disclosure.** IFC reports climate finance commitments in this annual report 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 the Principles for Responsible Investment (PRI), IFC is mandated to report under PRI's TCFD-aligned indicators.

**Emissions calculations.** IFC continues to estimate and report aggregate GHG emissions reductions from IFC investments (Scope 3 emissions). Through the IFI GHG Accounting Group, IFC works with the UNFCCC, other MDBs, some commercial banks and bilateral DFIs to harmonize Standards for GHG accounting. This includes development of GHG accounting methodologies and standard emission factors for power grid GHG emissions in more than 100 countries. IFC applies the IFI Harmonized Approach to GHG Accounting and IFI sector-specific approaches, where available, to estimate absolute, baseline and relative ex-ante GHG emissions where use of proceeds is defined. 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 aggregate estimated annual gross GHG emissions through the publicly available *Environmental and Social Review Summary*,<sup>5</sup> and project-level emissions through the Project Disclosure Portal in support of Performance Standard 3.

IFC has begun developing a transition plan to transfer responsibility for ex-ante absolute GHG project emissions from the E&S Department to the Climate Business Department. This will involve working through the project cycle to improve climate knowledge management and unite processes for Paris Alignment, GHG accounting, climate finance, and climate impact data assessment for every investment. The objective is to ensure more consistent, robust ex-ante GHG estimates using methodologies that are both feasible and practical for implementation in the real world to eventually facilitate ex-post GHG data.

IFC has been carbon neutral in all our business operations including business travel (Scope 1 and 2 emissions) since FY 2009. Prior initiatives have cut energy use in IFC's headquarters by 18 percent including installing lighting occupancy sensors, adjusting building-wide heating and cooling set points, and reducing an hour of heating, cooling, and lighting standard operations for the facility. In FY 2019, IFC set a global, internal carbon-reduction commitment to cut our facility-related emissions (Scope 1 and 2) 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.

4. 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](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/resources/ifc-climate-definition-metrics)

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