

# Sustainability

Sustainability is a critical component of IFC's operations and fundamental to good development impact. We help our clients do business in a sustainable way, promoting sound Environmental, Social, and Governance (ESG) practices, encouraging transparency and accountability, and enhancing benefits to local communities and the environment. Strong ESG performance correlates with clients' long-term business performance and interests: it also yields positive development outcomes, which are critical as our institution moves to invest more in Fragile and Conflict-Affected Situations (FCS).

Our ESG approach is anchored in our [Sustainability Framework](#) and [Corporate Governance Methodology](#), which are the cornerstone of our strategic commitment to sustainable development and an integral part of our approach to ESG management. Our ESG approach acts as a catalyst for our sustainability investments, climate and gender work, green and sustainability bond issuance, and impact investing.



## STRENGTHENING OUR INTERNAL ESG RESOURCES AND CAPACITY

In the last year, we have also completed and operationalized new institutional arrangements to strengthen our ESG processes and approach.

The Environmental and Social (E&S) Policy and Risk department, established in FY20, reports directly to the Managing Director and is the custodian of the Sustainability Framework, serving as the second line of defense for and an independent regulator of IFC's E&S risk management. The department has built out its dedicated Stakeholder Grievance Response team to work for early resolution of and prevention of complaints, as well as solidified its risk, policy, and learning functions to strengthen IFC's E&S risk management efforts.

In FY21, the Gender and Economic Inclusion Group joined the ESG Advice and Solutions department to form the Sustainability and Gender Solutions department. This enables better collaboration cross-cutting gender and ESG issues with the Investment, Advisory, and Upstream teams to implement the Sustainability Framework across all IFC activities. In FY21, the department continued to decentralize its more than 100 dedicated environmental and social specialists and corporate governance specialists with 70 percent of this staff now based in country offices, where they can best support our clients.

## ESG AND COVID-19

Over the past year, we moved swiftly to support our clients in managing and mitigating ESG risks heightened because of COVID-19. We continued to carry out our usual ESG support of pipeline and portfolio. In FY21, our ESG teams appraised 215 projects, including 42 projects that were classified as high risk, across IFC's sectors and regions. IFC's ESG knowledge management teams also worked to develop ESG resources to help clients through relief and recovery efforts in addition to 19 publications on broader ESG topics.

## CAPACITY BUILDING

We prioritized building internal and external capacity to respond to growing ESG risks, such as labor and occupational health and safety, climate, involuntary resettlement, reprisals, and gender-based violence. We hosted 32 web-based trainings on addressing gender-based violence and developed 18 new knowledge products, training modules, and tip sheets over the past year. We also sought to systematically track reprisal allegations as part of enhanced E&S complaints response and, in collaboration with IDB-Invest, developed the first comprehensive private sector guidance on screening, prevention, and response to reprisals. We piloted a contextual risk framework to enhance due diligence and supervision. This framework takes a systemic approach to screen ESG risks at the project location that are outside of client control but that can negatively impact a project's ability to meet our E&S requirements.

In FY21, we worked with regulators and stock exchanges in emerging markets to support the preparation of 20 codes, laws, and regulations that incorporate sustainability. We leveraged public-private partnerships and networks, such as the Sustainable Banking Network, Equator Principles Association, United Nations Sustainable Stock Exchange Initiative, and Women on Boards and in Business Leadership network to expand our influence. For example, we supported the Sustainable Banking Network in developing nine Sustainable Finance policies and guidelines.

**Example:** In collaboration with the government of the Netherlands, IFC partnered with the Central Bank of Iraq, which is a member of the Sustainable Banking Network, to launch an online integrated ESG scorecard for its banking sector, the first-of-its-kind in the region. This tool will play a key role in improving ESG disclosure and transparency in Iraq's banking sector.

One of our assets is our ability to convene, which helps us create stronger ESG standards, frameworks, and practices. Although COVID-19 prevented us from gathering in person, in April 2021, we hosted our first-ever Virtual Community of Learning. The virtual format allowed us to expand our reach, bringing together nearly 600 participants — a record number — from more than 70 countries. Attendees, which included our clients, network of partners from the Equator Principles Association finance institutions, export credit agencies, development finance institutions, and other multilateral finance institutions, shared best practices and ways to innovate.

As we help our clients rebuild from the pandemic, IFC's ESG approach remains critical to a recovery that promotes sustainable and inclusive development outcomes, effectively manages ESG risks, and implements ESG solutions.

## **ESG AND FCS**

As IFC expands its business to FCS contexts, addressing ESG challenges will be critical to finding bankable projects and supporting clients in managing risks. We are improving the implementation of our ESG approach through improvements to our own ESG systems, clarifications of our client requirements, and capacity building of our staff and clients. We are taking actions according to commitments as part of the external review of IFC and MIGA's Environmental and Social Accountability, including the Compliance Advisor Ombudsman's (CAO) Role and Effectiveness. These include improving our E&S systems and procedures, enhancing project-level grievance mechanisms, clarifying IFC's application of E&S requirements

for financial intermediaries, strengthening E&S complaints responsiveness, clarifying criteria for supply chains, and mainstreaming contextual risk assessment in due diligence and supervision.

## **LEVERAGING TECHNOLOGY AND INNOVATION**

In FY21, we used innovative technology, such as flyover drones and 360° cameras, to conduct ESG appraisals and monitor projects where on-site visits were restricted due to COVID-19. We also piloted an ESG artificial intelligence tool, Machine Learning Environment Analyst (MALENA), which we use to enhance our operations. MALENA uses natural language processing, machine learning, and prediction analytics to help inform our ESG due diligence. We also continued to test and calibrate our new Sustainability Rating Tool, a strategic initiative that will provide a dynamic ESG rating to improve our internal risk management processes and operational efficiency.