CLIMATE-RELATED FINANCIAL DISCLOSURES

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This report is IFC's seventh consecutive climate-related financial disclosure. In 2023, the World Bank Group's new vision of creating a world free of poverty on a livable planet was endorsed, expanding IFC's mandate to address climate-related issues. This report aims to provide IFC's stakeholders with information that accurately reflects the integration of climate considerations into IFC's operations. It reflects IFC's commitment to tackling climate change, which presents both a challenge and an opportunity for IFC's core business and therefore represents a key component of its disclosures and business strategy. Finally, it represents IFC's continued commitment to maintain and strengthen its disclosure of climate-related financial information. All seven reports can be found online.

Since 2006, IFC has been obtaining limited assurance over a selection of information of its climate-related financial disclosures reporting from EY, a recognized third party, as part of the review of IFC's annual report. EY's nature and scope of work is detailed in its limited assurance report, freely available on IFC's annual report website.

In FY24, IFC continued to assess the impact of climaterelated factors on the following four thematic areas: governance, strategy, risk management, and metrics and targets.

GOVERNANCE

What's New?

- New director for Climate Business Department appointed and a Climate Capacity and Inclusion unit established with a focus on knowledge management and information sharing.
- Drafted and operationally tested the procedural framework for the implementation of the counterparty-based approach to Paris Alignment.
- Further integrated climate risk into IFC's enterprise risk framework and operations through a crossorganizational Climate Risk Working Group (CRWG), to identify, assess, and manage IFC's overall exposure to climate-related risks and opportunities.

Governance and Oversight Around Climate-Related Risks and Opportunities

IFC's Articles of Agreement outline the composition, roles, and responsibilities of IFC's Board of Directors. The Audit Committee of IFC's Board of Directors plays a key role in overseeing risk management at IFC. Under the direction of IFC's Managing Director, IFC's management team is responsible for IFC's day-to-day operations including the management of existing and potential risks.

IFC's Managing Director, who reports to the President of the World Bank Group, oversees climate business and risk on all climate commitments including climate finance investment commitments, climate risk evaluation, and Paris Alignment of IFC's operations (as defined below). The World Bank Group President reports to each of the World Bank Group's (IBRD, IDA, IFC, and MIGA) Boards of Directors. Following the climate commitments as part of IFC's 2018 capital increase, and the Climate Change Action Plan (CCAP) 2021–2025, in FY21 its Board approved IFC's commitment to align 100 percent of new investments with the goals of the Paris Agreement from July 2025 (85 percent starting in July 2023) (Paris Alignment), and to further scale climate finance. This means all new investments are now screened for aspects of physical and transition climate risk.

An IFC investment is considered Paris Aligned when new financing flows and guarantees provided will be consistent with the objectives of the Paris Agreement and a country's pathway toward low greenhouse gas emissions and climateresilient development. IFC applies the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of Direct Investment Lending Operations, Intermediated Financing, and General Corporate Purpose Finance. The outcome of a Paris Alignment assessment for an operation is an internal classification of "aligned" or "non-aligned." For operations to be classified as aligned, a client may be required to take certain actions or make certain commitments before and during the tenor of the financing, as needed.

The World Bank Group's Boards and management set the Group's public climate targets. During the 2023 Annual Meetings of the World Bank Group, the World Bank Group's new vision of creating a world free of poverty on a livable planet was endorsed.

The World Bank Group reports annually to its Boards of Directors specifically on climate, including progress toward all climate commitments *(see Metrics and Targets section below for further details)*. In addition, progress on targets is reported to the IFC Board as part of IFC's quarterly Investment Operations Report Updates. IFC management updated its Board on the third year of implementation of the CCAP in September 2023. Furthermore, IFC seeks formal Board approval for most investment projects, except those approved with delegated authority. As in previous fiscal years, in FY24, there was significant engagement with IFC's Board and management on several projects in hard-to-abate sectors. Additional touch points with IFC's Board and management team are **integrated into its business and reporting processes**, through written and verbal communications including the Annual Portfolio Review, Strategy and Business Outlook, Capital Package and the Forward Look Implementation Update, annual CCAP updates, and the Annual Report on Financial Risk Management and Capital Adequacy, as well as Paris Alignment of projects, and deep dives and technical briefings as requested.

Climate-related risks and opportunities are integrated into all aspects of IFC's operations. IFC's Climate Business **Department** is responsible for providing in-house expertise on climate and guiding the achievement of IFC's climate targets. It serves as a hub that informs, trains, and enables IFC investment and other departments to integrate climate into IFC's operations, engage with its clients, and broaden its impact. The Climate Business Department helps set corporate climate strategy, shape policy, and support investment teams in identifying climate investment opportunities and mitigating climate risk. It also addresses medium to long-term climate risks and opportunities by building the capacity of IFC staff and clients, providing advisory services, and developing thought leadership and innovation to create climate markets. The Department is responsible for developing approaches to help IFC meet its Paris Alignment commitment, as well as supporting investment teams with adhering to these requirements through project assessments, development of tools and support materials, and delivering training to IFC staff and clients as needed.

The Climate Business Department is housed in IFC's operations under the Vice President of Industries, who reports to IFC's Managing Director. The Vice President of Industries also oversees all IFC's global industry departments as well as the Corporate Portfolio and Operations Management department. IFC's global and regional industry departments are responsible for originating and processing investments, including those that are reported as direct and indirect climate financing. In FY24, a new Director was appointed to lead the Department, and a Climate Capacity and Inclusion unit with a focus on knowledge management and information sharing was established. IFC Climate's Knowledge Management program facilitates sharing of best practices, capacity building, risk management, innovation, and stakeholder engagement.

Evolution of the Climate Risk Working Group

Climate risk is being integrated into IFC's enterprise risk framework and operations through the crossorganizational Climate Risk Working Group (CRWG), chaired by the Vice Presidents of Risk and Finance and the Vice President of Industries. In FY23, the CRWG, co-led by the Directors of Climate Business and Corporate Risk Management departments, enhanced the efforts to identify, assess, and manage IFC's overall exposure to climate-related risks and opportunities. In FY24, the CRWG's membership was further expanded, and its agvernance enhanced to include essential internal stakeholders, foster greater collaboration, and leverage diverse institutional expertise from various departments. The CRWG led the efforts to update the definition of IFC's climate risk, which was published in its FY24 03 financial statements. For additional details, please refer to the Risk Management section of this report.

Integration of climate business

IFC is integrating climate business throughout the institution. The Climate Business Department works with Global Industry Climate Anchors, Regional Anchors, and Regional Industry Leads to mainstream climate considerations in IFC's operations. The Climate Business Department has established a **Climate Network** that meets every month. This 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 Policy and Risk, to foster knowledge sharing across departments and units.

A cross-industry and cross-functional group of senior climate experts has been established in IFC's Paris office to support the Paris Client Hub and Western European region's engagement with clients and donors and to strengthen partnerships with other organizations active in the climate space.

IFC's **Blended Finance unit** deploys donor funds in conjunction with IFC's commercial funds to catalyze climate-smart investments with high development impact that would not occur under normal market conditions. By mitigating specific investment risks and rebalancing risk-reward profiles, blended finance can address market failures, help mobilize private investment in pioneering projects and challenging environments, and demonstrate the business case for climate-smart investing. IFC's **Treasury and Mobilization** Vice Presidency issues green bonds and mobilizes private capital to contribute substantially to climate-related objectives such as climate change mitigation, climate change adaptation, biodiversity, and water and oceans protection and vulnerability.

IFC's Upstream and Advisory services work alongside its investment operations to support market creation and to generate a bankable pipeline of projects, especially in low-income economies and fragile and conflict-affected situations (FCS) and in strategic priorities such as climate. IFC's Advisory services help companies, industries, national and local governments improve investment conditions, strengthen basic infrastructure, improve corporate governance, and become more sustainable. IFC's **Upstream** work focuses on early-stage market and project preparation work to build a pipeline of wellprepared, commercially viable investment opportunities. In FY24, IFC integrated its Upstream and Advisory services to help bring replicable and scalable solutions to deliver against IFC targets and IFC shareholders' ambitions, including those for climate.

IFC provides a range of advisory services to its clients. These services may include assistance in assessing carbon footprints and creating customized decarbonization roadmaps with complementary cost-benefit analysis. IFC also supports clients in early-stage project development, piloting business models, and contributing to fund pre-investment studies. This advisory work focuses on initiatives that enhance energy efficiency, promote renewable and alternative energy, advance emerging technologies, and improve resource efficiency.

IFC **supports the decarbonization** of four of the world's most carbon intensive industries: steel, cement, glass, and chemicals, including those used for fertilizers. Through partnerships with governments and private companies in these sectors, IFC aims to create greener supply chains, promote materials conservation and circularity to reduce waste, boost economic and technological advancements, offset financial risks associated with decarbonization, and develop manufacturing clusters and partnerships to optimize resource, energy, and labor efficiency.

The **Climate Risk advisory program**, supported by Japan and the Netherlands, has been successfully set up and engaged with 22 **financial institutions** to date, across multiple regions. The support provided ranges from high-level mapping of physical and/or transition risks, to reviewing internal climate risk policies and procedures, measuring financed emissions, and reviewing alignment with Paris Agreement climate scenarios. In addition, country-focused climate risk training sessions have been conducted in collaboration with central banks and banking associations in India, Sri Lanka, Vietnam, the Philippines, Thailand, and China. These efforts have fostered growing interest in exploring transition finance opportunities.

IFC nominates directors to the boards of investee companies to add value in line with its development mandate. Throughout their board service, Nominee Directors are supported by a dedicated **IFC Nominee Directorship Center**. In FY24, recognizing the importance of embedding good climate governance into the boards of its client and investee companies, IFC organized training sessions for IFC Nominee Directors to build and improve capacity of investee companies on climate governance, biodiversity, and climate risk and resilience.

IFC staff actively engages with **civil society organizations** (CSOs) including during the World Bank Group Spring and Annual Meetings around issues of sustainable supply chains, Paris Alignment, investment exposure to fossil fuels, and sustainability in financial intermediary investments. IFC engages formally and informally with private, public, financial sector, and CSOs on climate risk and opportunities, and participates in several climaterelated corporate leadership initiatives.

STRATEGY

What's New?

- In FY24, implemented Paris Alignment assessments for new investment projects across all industries and sectors.
- FY24 total long-term finance own-account commitments in climate: \$9.1 billion.
- IFC piloted scenario analysis exercises on its portfolio in select sectors.

Overview of the World Bank Group's Climate Change Strategy

IFC's strategic priorities for its climate business are anchored in its Capital Increase Package commitments and the FY21-25 World Bank Group CCAP, which focuses on Paris Alignment as well as increasing climate finance to reduce emissions and strengthening climate change adaptation. It provides a roadmap on aligning climate and development goals using the World Bank Group diagnostic tool, the Country Climate and Development Reports (CCDRs). It prioritizes transition in five key systems that generate 90 percent of emissions and face significant adaptation challenges: energy; agriculture, food, water, and land; cities; transport; and manufacturing. It also commits IFC to increase finance to support the transition, including by mobilizing private capital and supporting global efforts to raise and deploy concessional finance.

Implementation of World Bank Group Climate Change Action Plan 2021-25

As part of this plan, IFC committed to **increase its own-account long-term 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 and FY20. Additionally, starting July 1, 2023, IFC committed to align 85 percent of its investment projects with the goals of the Paris agreement.

In FY24, the President of the World Bank Group committed to a new climate finance target of 45 percent of its annual financing to climate-related projects (up from 35 percent) for the World Bank Group starting in FY25.

Helping IFC's Clients Address Climate Change and Development

Climate financing

In FY24, IFC's total own-account long-term climate finance-related commitments were \$9.1 billion, making it a record year for IFC. This accounted for 43 percent of IFC's total own-account long-term finance commitments (see Figure 1). IFC's average climate finance business as a percentage of its total own-account long-term finance commitments for the period FY21-24 is 39.9 percent, ahead of the CCAP target of 35 percent.

This achievement is the result of significant efforts to mainstream climate into operations and the introduction of new and innovative products. Screening projects for Paris Alignment has also enabled the climate team to identify and flag climate finance opportunities to investment teams at the earliest stages of the IFC investment cycle.

IFC continues to diversify its climate business, identifying new areas of growth. In FY24, IFC retained strong climate business in green buildings (\$2.5 billion) and renewable



IFC's Climate Business (Total Long-term Own-Account Commitments)

energy (\$2.3 billion). IFC also invested in energy and resources efficiency (\$0.8 billion), clean transportation (\$0.5 billion), waste, water and wastewater (\$0.4 billion), climate-smart agriculture (\$0.3 billion), and others (\$2.3 billion).

IFC's climate finance represents the climate-related investments made that support client countries' transition to low-carbon resilient growth and better positive management of climate impact. Meanwhile, IFC's commitment to Paris Alignment means that every investment made by IFC is assessed for aspects of transition and physical climate risk.

Implementation of the Paris Alignment Commitment

IFC's work on Paris Alignment has helped it define an overall climate risk and opportunities strategy and client engagement approach that incorporates governance structures, risk management, and metrics and targets. In FY24, IFC is making strides with the implementation of Paris Alignment of its investment operations. In FY24, IFC exceeded its 85 percent commitment to assess and align its investment commitments with the goals of the Paris Agreement.

Since the signing of the Paris Agreement in 2015, IFC has worked with the World Bank, MIGA, and eight other multilateral development banks (MDBs) to develop the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment¹, which consider the specific contexts of the emerging markets in which MDBs operate. IFC has coordinated with the other MDBs to develop and publish the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations: Direct Investment Lending Operations (real sectors) and, along with the European Bank for Reconstruction and Development, led the development of the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations: **Intermediated Financing**. Joint methodological principles have also been prepared for **General Corporate Purpose Finance** for projects without targeted use of proceeds in the real sector.

The lists of activities considered Universally Aligned² and Universally Not Aligned³ for mitigation were also prepared and agreed upon by all MDBs. In FY24, IFC conducted over 30 Paris Alignment training sessions, reaching more than 2,000 staff. Through these sessions, IFC provided internal guidance materials to support capacity building, including Paris Alignment assessment questionnaires, case studies, and factsheets. We developed tools, guidance notes, and training for investment staff to communicate and guide clients on Paris Alignment. These are toolkits to help IFC's clients in emerging markets improve their climate risk management and reporting capacity.

Climate considerations are included early in the investment cycle, 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.

Country Climate and Development Reports

Introduced in the current CCAP, the World Bank Group's CCDRs integrate climate change and development considerations. In FY24, the World Bank Group continued to strengthen the CCDR as a diagnostic tool, and lead the development of the CCDRs, along with support from the International Monetary Fund, and active engagement with the private sector, government counterparts, academia, think tanks, and civil society organizations. In FY24, the World Bank Group published 19 CCDRs and a CCDR Summary Report covering 42 economies titled, *The Development, Climate, and Nature Crisis: Solutions to End Poverty on a Livable Planet.*

1 Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment - <u>https://www.worldbank.org/en/publication/paris-alignment/joint-mdb-paris-alignment-approach</u>

2 Universally aligned activities include activities that do no harm or support climate change mitigation such as renewable energy.

3 Non-aligned activities include coal power, coal mining, peat mining, and peat power.

How IFC is Harnessing Climate-Related Opportunities

Providing market-enabling activities

As with previous years, IFC continued to prioritize climate-related business development through Upstream and related activities. Upstream activities consist of pre-investment work in three categories, often in collaboration with the World Bank and MIGA: (i) creating markets (regulatory reform or standard setting), (ii) creating opportunities (through technical assistance to private sector clients), and (iii) crystalizing opportunities (project risk structuring and investor mobilization). IFC's management team is regularly updated on the climate share of the Upstream pipeline, allowing a line of sight on green business opportunities.

Creating markets through regulatory reform and standard setting

In FY24, IFC implemented the following standard-setting advisory initiatives.

- IFC started to scale up Building Resilience Index (BRI), the adaptation sister to IFC's Excellence in Design for Greater Efficiencies (EDGE) Green Building certification system tool launched in 2021. BRI is a web-based hagard mapping and resilience assessment framework for the building sector, to help buildings reduce their risk exposure to changing climate conditions, as well as improve their resilience and adaptation. The tool helps real estate investors assess location-specific risks and create investment opportunities to enhance the resilience of buildings and cities. We are applying lessons from a decade of work through EDGE Green Building certification system to expand to green cities through the Advanced Practices for Environmental Excellence in Cities (APEX) program.
- IFC has initiated collaborations with the Climate Bonds Initiative, Rocky Mountain Institute, Carbon Trust, and the Glasgow Financial Alliance for Net Zero, among others, to develop training, case studies, and essential materials relating to **Transition Finance**.

- IFC participates in the MDB Circular Economy Working Group, which launched A Shared Vision for the Circular Economy. IFC convened more than 50 private and public sector leaders for a workshop on the sidelines of the Plastics Treaty negotiations in Ottawa.
- Bangladesh introduced **sustainability and climaterelated financial disclosure guidelines for banks and finance companies** with technical assistance from IFC and support from the Swiss State Secretariat for Economic Affairs (SECO).
- The <u>Sustainable Banking and Finance Network (SBFN)</u>, for which IFC hosts the Secretariat, launched a **Toolkit on Sustainable Finance Taxonomies** to support financial sector regulators, banking associations, and interested users in emerging markets, and a new **online Data Portal** and Global Progress Brief covering: Environmental, Social, and Governance (ESG) Integration, Climate and Nature-Related Risk Management, and Financing Sustainability.

Creating opportunities through technical assistance to private sector clients

IFC recognizes that bringing its clients along on the climate journey will be critical to managing its climate risk, engaging in new business opportunities, and implementing its overarching climate strategy. To do so, IFC works closely with its clients in both real and financial sectors to build capacity on key topics. Highlights of IFC's work in FY24 include:

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 Program, IFC is working in four pilot countries
 - Egypt, Mexico, Philippines, and South Africa - to help
 catalyze the development of a pipeline of green projects
 in target sectors. It involves engaging with regulators
 on developing national green finance taxonomies
 and collaborating with client banks on climate risk
 management as well as increasing the proportion
 of green investments in their portfolios to green the
 domestic financial sector and generate climate finance
 at scale. In FY24, the Roadmap of Actions: Green
 Buildings in the Philippines, a roadmap for the sector

reflecting the views of stakeholders participating in roundtable dialogues held in Manila and Cebu, was published.

- Green Bonds Technical Assistance Program (GB-TAP), with whom IFC works extensively, continues to provide technical assistance to financial institutions on green, social, and sustainability bond issuances. In FY24, the GB-TAP trained 237 professionals from 99 institutions across 35 countries and has to date trained over 1,300 professionals from over 370 financial institutions across over 75 countries and stimulated more than \$6.5 billion in green bonds, \$1 billion in social bonds, and \$4.3 billion in sustainability bonds. In addition, the GB-TAP published the Sustainable Micro, Small, and Medium Enterprises (MSME) Finance Reference Guide, and a Manual on Preparing for Green Bond Issuances focused on financial institutions in Latin America and the Caribbean.
- IFC's Green Banking Academy (GBAC) is a knowledge and capacity-building initiative of IFC's Financial Institutions Group. GBAC trains financial institutions on the four pillars of a green bank (eco-efficiency, environmental risk management, green products and services, and green strategic commitment) and offers a green finance certificate to professionals. GBAC has trained over 5,000 bankers and granted more than 500 scholarships in Latin America and the Caribbean. In Asia, IFC partners with the Hong Kong Monetary Authority supporting financial institutions through the Alliance for Green Commercial Banks, a new global initiative that brings together financial institutions, banking industry associations, research institutions, and innovative technology providers to work together to develop a community of green commercial banks across emerging markets and finance the infrastructure and business solutions needed to urgently address climate change.
- Based on its recently developed **climate (corporate)** governance methodology, IFC has provided selected clients with climate governance assessment and training services. It also offered capacity-building activities for its local partner institutions to promote good climate governance standards and train board directors on their role in climate action in their respective markets. IFC developed and launched training programs supported by SECO, the United Nations Sustainable Stock Exchanges

Initiative, and others to build capacity in emerging and developing markets on disclosure standards.

Crystalizing opportunities through investor mobilization

In FY24, IFC signed a \$3.5 billion credit insurance policy with 13 global insurance companies under its Managed Co-Lending Portfolio Program (MCPP), with an aim to support economic activity and foster development in emerging markets. The program, MCPP Financial Institutions III, mobilizes the risk capacity of leading insurers to support more than \$7 billion of new IFC medium- and long-term lending to commercial banks and non-bank financial institutions over the next six years. The program will increase access to finance for micro, small, and medium enterprises, including women-owned businesses, as well as firms addressing climate change.

Supporting the climate agenda through treasury products

In FY24, IFC's Treasury raised \$1.3 billion in **green bonds** across nine trades in six different currencies, including a CAD1 billion green bond, IFC's largest green bond in the Canadian dollar/maple market. IFC is one of the earliest issuers of green bonds, having launched a Green Bond Program in 2010 to help catalyze the market and unlock investment for private sector projects that support renewable energy and energy efficiency.

Exploring Creative Solutions to Target New Areas of Growth

Cooling initiative

In FY24, with the support of the UK Government, IFC established a dedicated \$12.7 million Trust Fund to help prepare projects and scale up IFC's investments and support IFC's Sustainable Cooling Initiative, focusing on five sectors where cooling is needed the most: district cooling; cooling for buildings; consumer and small and medium enterprises finance; manufacturing and innovation; and cold chains and logistics. IFC built its Sustainable Cooling Community of Practice, which has built on the TechEmerge Program, and expanded into areas of coordinated thought leadership and a global strategy to support upstream project creation with technical assistance and funding. IFC is also coordinating with partners such as the United Nations Environment Programme and the global Cool Coalition, regional cooling think tanks such as Asociación Colombiana De Acondicionamiento Del Aire Y De La Refrigeración (ACAIRE) and the Africa Centre of Excellence for Sustainable Cooling and Cold-Chain, and with countryspecific programs across the World Bank Group.

Sustainability-Linked Finance (SLF)

In FY24, IFC committed a total of \$3.3 billion of its own-account long-term finance in SLF. This included, for example, a €300 million (equivalent to \$329 million) sustainability-linked loan to global energy company Iberdrola for funding renewable energy projects in emerging markets, such as Morocco, Poland, and Vietnam, which currently rely heavily on coal. This loan provides incentives to support the company's targets to reduce greenhouse gas (GHG) emissions and ramp up renewable energy capacity.

Industry-specific decarbonization strategies

IFC has been conducting deep dives to embed climate into sectoral strategies for high-emitting sectors like steel, cement, chemicals, and power. IFC's focus on manufacturing has evolved to be centered around carbon abatement, industry transition to lower carbon pathways, greening of supply chains, waste reduction, and circularity. A core aspect of this strategy includes the notion that IFC's investment evaluation should take a nuanced approach to the development status, needs, and economic complexity of a country. In subsectors where full GHG abatement is not possible (heavy industries), IFC focusses on climate transition and lower carbon pathway approaches. These pathways make explicit the steps to be taken by clients during the tenor of IFC financing to support the reduction of their GHG emissions over the project lifetime by incorporating innovative technologies, practices, or knowledge, and managing carbon lock-in and stranded asset risk. IFC has developed comprehensive

sector strategies and roadmaps for key sectors, such as chemicals, and is developing more for circular economy, construction materials, electric vehicles and battery manufacturing, livestock, rice and other agricultural crops.

IFC's carbon markets approach

In response to growing demand from IFC clients and growing recognition that carbon markets can be an effective tool to help companies and countries decarbonize, the Climate Business Department collaborated with industry departments to formulate an approach for future engagement in carbon markets. This approach seeks to help clients while mitigating potential reputational risks through selectivity, careful due diligence, and promotion of high integrity market standards. As part of this approach IFC developed "deal acceptance criteria" to be used as an evaluation tool for future IFC carbon credit transactions to support impactful projects. IFC is also working closely with the World Bank and MIGA to help implement the World Bank Engagement Roadmap for High-Integrity Carbon Markets that was announced in December 2023.

Biodiversity finance and nature-based solutions

In FY24, IFC continued to expand its *Biodiversity Finance Reference Guide*, which was launched in 2023, and is the world's first guidance on eligible investment activities that constitute biodiversity finance. IFC released a *Catalog of Nature-based Solutions for Infrastructure Projects* in the water, mining, and renewable energy sectors. The catalog provides examples of nature-based solutions that private infrastructure companies can integrate into their core business operations and articulates the business case for doing so. The intent is to scale the incorporation of naturebased solutions into core business operations of private companies to meet biodiversity targets as well as climate mitigation and adaptation goals. IFC played an active role in the development and release of the World Bank Group's Nature Finance Tracking Methodology. The methodology was developed in accordance with a commitment under the International Development Association's 20th replenishment and provides a framework to identify the volume of committed finance that supports the nature positive goal embodied in the Kunming Montreal Global Biodiversity Framework. IFC collaborated with the International Capital Markets Association (ICMA) and other partners to develop and publish Bonds to Finance the Sustainable Blue Economy: A Practitioners' Guide, which draws on IFC's own Blue Finance Guidelines.

IFC is represented in the UN Secretariat of the Convention on Biological Diversity Advisory Committee on Resource Mobilization, the Task Force on Nature-related Financial Disclosures Forum, and the World Economic Forum Sustainable Finance Advisory Committee. The World Bank Group committed to begin formal tracking of nature finance on July 1, 2024.

RISK MANAGEMENT

What's New?

- Physical and transition risk aspects incorporated into the Paris Alignment assessment of all investments through the Transaction-based and Counterparty-based approaches.
- IFC updated its definition of climate risk, which encompasses the actual or potential negative effects of climate-related conditions and events on IFC's investments, corporate operations, reputation, or consolidated financial statements.
- IFC has created a dedicated second-line climate-risk management function within the Corporate Risk Management Department.

Enhancing IFC's Climate Risk-Management Capacity.

IFC continues to strengthen capacity-building initiatives to enhance staff knowledge in climate-related risk management, opportunities, strategy, and reporting. IFC has created a dedicated second line climate risk management function within the Corporate Risk Management Department and has undertaken various initiatives to enhance the sustainability of its operations and IFC's ability to effectively manage climate risk.

In FY24, IFC updated its definition of climate risk to the following: "Climate Risk encompasses the actual or potential negative effects of climate-related conditions and events on IFC's investments, corporate operations, reputation, or consolidated financial statements. There are two primary climate-related risk categories: (1) physical risks and (2) transition risks, which could carry financial and non-financial implications for IFC.

"Physical risks include both 'acute' and 'chronic' physical risks to business operations. Acute physical risks are event-driven, stemming from short-term extreme weather events like hurricanes, floods, tornadoes, wildfires, storms, drought, or heatwaves. Chronic physical risks emerge from longer-term shifts in climate patterns, such as progressive changes in precipitation and temperature, which could lead to rising sea levels, alteration of ecosystems, desertification, water scarcity, soil degradation, and deterioration of marine ecology.

"Transition risks are attributable to the global shift toward a lower-carbon economy. These risks are multifaceted and arise from changes in law or regulation, public policies, technological breakthroughs, shifts in investor and public sentiment, and disruptive innovations in business models aimed at addressing climate change.

"These risks could carry financial and non-financial implications for IFC."

Integrating Risk Assessment in Paris Alignment

Frameworks. The Climate Business Department conducts and supports investment teams in the assessment of key aspects of physical climate and transition risks in investment projects. In FY24, IFC continued to operationalize and mainstream its Paris Assessment process and approach. IFC's systems support the documentation, calculation, and reporting to its Board of climate volume, as well as the documentation of the results of Paris Alignment transaction-based and counterparty assessments of physical and transition risks for all real sector and financial intermediary and funds projects. *For additional details, please refer to the Governance section and Implementation of the Paris Alignment Commitment in the Strategy section of this report.*

Physical Risk. 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 by IFC clients 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 component of Paris Alignment. Assessment screening includes guestions 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 developed general guidance and sectoral notes for the assessment of physical risk and alignment with the adaptation and resilience component of the Paris Agreement, for all projects with defined use of proceeds across all sectors.

IFC is operationalizing Paris Alignment through IFC's proprietary Climate Risk Portal, a one-stop-shop platform used by IFC teams to identify the exposure and vulnerabilities of potential projects to physical climate risks. The portal comprises the GeoViewer and Sectoral Climate Risk Screening tools that are used to assess over 400 new investments annually. **Transition Risk.** The World Bank Group no longer finances thermal coal power generation or upstream oil and gas⁴, which has limited IFC's exposure to fossil fuels, coalpower generation, and upstream oil and gas investments. IFC continues to invest in pathways to transition with the ultimate goal of reducing investments in fossil fuels. IFC's exposure to fossil fuels may stem from its direct investments in sectors such as gas-to-power, thermal plants, oil and gas, fossil fuel distribution, and captive power. In FY24, IFC's commitment in these sectors was \$228 million.

IFC continues to implement its **Green Equity Approach** (**GEA**) that was first introduced in 2020. Under the GEA, IFC works with clients with whom it has equity or equitylike exposures to increase their climate lending and reduce their exposure to coal-related projects. In 2023, IFC introduced an update to the GEA, requiring a commitment from FI clients to not originate and finance any new coal projects from the time IFC becomes a shareholder.

IFC calculates and discloses in the Environment and Social Review Summary (ESRS) the emissions for all real-sector projects with annual emissions of over 25,000 metric tons of carbon dioxide equivalent (mtCO₂e). Since May 2018, a **carbon price** has been included in IFC's 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 its Board papers. To maintain consistency across the World Bank Group, price levels used by IFC are guided by the High-Level Commission on Carbon Prices⁵. Where applicable, carbon pricing is also integrated into IFC's Anticipated Impact Measurement and Monitoring framework 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.

IFC assesses certain aspects of transition risk in its investments through the **Mitigation component** of its Paris Alignment process. IFC has mapped **decarbonization pathways** for **hard-to-abate sectors** such as chemicals and mining and continues this work for other carbonintensive sectors.

Enhancing Clients' Climate Risk-Management Capacity. IFC continues to provide access to its Climate Assessment for Financial Institutions (CAFI)⁶ platform to client financial institutions so they can assess the climate eligibility of investments and estimate the development impact of climate-related activities. In FY24, IFC added functionality to the CAFI tool, through the addition of a dedicated module for reporting on Climate Smart Agriculture projects, to improve calculation and reporting of individual electric and hybrid vehicle leases. These efforts to support investment clients' risk management and climate finance indirectly reduce IFC's exposure to climate risk.

METRICS AND TARGETS

What's New?

- In FY24, IFC exceeded its commitment to have 85 percent of its investment commitments Paris Aligned.
- In FY24, IFC exceeded its CCAP target to have 35 percent climate finance business as a percentage of its average total own-account long-term finance commitments.
- Climate investments comprised 43 percent of IFC's FY24 own-account long-term finance commitments.

Climate Finance Methodology. At IFC, the recognition of the climate finance component of its investments is done in compliance with the Joint MDB Methodology for Climate Finance Tracking, which is regularly updated to account for the evolving market context to limit climate-related risks and take advantage of new climate opportunities. This includes the Common Principles for Climate Mitigation Finance Tracking, last updated in 2023, and the Joint MDB Methodology for Adaptation Finance, last updated in 2022. IFC is involved in the development and updating of the methodologies for both mitigation and adaptation alongside other MDBs. In FY24, IFC and the World Bank also contributed to the development of the MDB Joint Principles for Tracking Nature Positive Finance released at COP28.

Climate Finance Targets & Results. In FY24, IFC's climate investments⁷ comprised 43 percent of its total own-account long-term finance commitments, exceeding the corporate target of 35 percent. IFC's average climate finance business as a percentage of its total own-account long-term finance commitments for the period FY21-24 is 39.9 percent, ahead of the CCAP target of 35 percent. *For additional details, please refer to the Strategy section of this report.* The IFC corporate target is translated to departmental and regional climate business targets. In institutional departmental scorecards, IFC reports against the 35 percent target of climate projects as a percentage of own-account long-term finance commitments.

Paris Alignment Targets & Results. In FY24, IFC exceeded its CCAP target to have 85 percent of its investment commitments Paris Aligned. *For additional details, please refer to Implementation of the Paris Alignment Commitment in the Strategy section of this report.*

- 4 World Bank Group Announcements at One Planet Summit https://www.worldbank.org/en/news/press-release/2017/12/12/world-bank-group-announcements-at-one-planet-summit
- 5 Carbon Pricing Leadership Coalition https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices
- 6 IFC, with donor support, created the CAFI platform, a transparent algorithm harmonized with other MDBs to support the tracking of growing climate finance volumes of IFC client banks and other MDBs to which IFC selectively licenses the tool.
- 7 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. <u>https://www.ifc.org/</u> wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/resources/ifc-climate-definition-metrics

New World Bank Group Corporate Scorecard FY24-

FY30. The new World Bank Group Scorecard is designed as a strategic management tool to help Management and the Board translate World Bank Group vision into action. The scorecard is organized around Outcome Areas, one of which is "Green and blue planet and resilient populations." It captures the impact of World Bank Group's financing operations to enhance the resilience of beneficiaries to climate risks and support low-carbon transition, biodiversity, and ecosystem services.

MDB Common Approach to Climate Impact

Measurement. In FY24, in collaboration with the World Bank Group and other MDBs, IFC introduced the Common Approach to Measuring Climate Results⁸. It is the first common structure to define, measure, and link global progress on climate mitigation and adaptation with MDB.

Investment Disclosure. IFC reports climate finance commitments in its annual report and in the *Joint* Report on Multilateral Development Banks' Climate Finance. In IFC's annual Green and Social Bond Impact <u>Report</u>, IFC also reports on the expected environmental impact of projects financed through the green bonds that IFC issues. The IFC Green Bond Program follows the Green Bond Principles, a voluntary set of guidelines for transparency and disclosure. IFC's Green Bond Program has been reviewed by the Center for International Climate and Environmental Research at the University of Oslo (CICERO), now a part of the S&P Global Index, which provided a second opinion on IFC's framework and guidance for assessing and selecting eligible projects for green bond investments. As a signatory of the Principles for Responsible Investment (PRI), IFC also reports under PRI's indicators.

IFC Corporate Activities. IFC's Corporate Sustainability program identifies and implements initiatives designed

to reduce its direct and indirect GHG emissions, improve energy efficiency and climate resiliency, promote responsible waste management, and create healthy workspaces for staff.

Corporate GHG Emissions. Building operations and travel constitute the largest sources of GHG emissions for IFC's current corporate carbon footprint. IFC calculates both direct (Scope 1) and indirect (Scope 2) GHG emissions for its corporate operations.

IFC Scope 1 and 2 GHG Emissions (tCO,eq)⁹

GHG EMISSIONS	FY20 ¹⁰	FY21	FY22	FY23
Scope 1	1,058	970	1,022	1,026
Scope 2	8,669	7,275	7,386	7,428

IFC Scope 1 and Scope 2 emissions have been subject to a Limited Assurance review by EY provided for the World Bank Group for Scope 1 and Scope 2 emissions.

IFC also measures indirect (Scope 3) GHG emissions globally from business air travel, contractor-owned vehicles, and GHG emissions related to food purchased at its headquarters, calculated through the <u>World Resource</u> <u>Institute's Cool Food Pledge</u>. Scope 3 GHG emissions for corporate operations does not include emissions from IFC's financing activities. For methodology details and data, please see <u>The World Bank Group Greenhouse</u> <u>Gas Emissions Inventory Management Plan for Internal</u> <u>Business Operations</u>.

Carbon Reduction Targets. In 2018, IFC set its firstever global corporate carbon emissions reduction science-based target to reduce its facility-related carbon emissions (Scope 1 and 2) by 20 percent between 2016 and 2026.

To offset its annual GHG emissions, IFC purchases carbon offsets in accordance with the <u>WBG-wide carbon offset</u> <u>purchasing guidelines</u>.

For more information, visit: <u>www.ifc.org/en/about/</u> <u>corporate-responsibility</u>.

GHG Emissions from IFC investments. IFC continues to estimate and report aggregate GHG emissions reductions from IFC investments (IFC's investment Scope 3 emissions). Through the International Financing Institutions (IFI) GHG Accounting Group, IFC works with the United Nations Framework Convention on Climate Change (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 in accordance with its Policy for Environmental and Social Sustainability and Performance Standards, and net emissions for climate-related projects¹¹. IFC continues to disclose ex-ante estimated project level gross GHG emissions when emissions are greater than 25,000 tCO₂e per year through the publicly available Environmental and Social Review Summary,¹² under IFC's Access to Information Policy. In FY24, IFC anticipates 16.2 million tons of GHG emissions reduction from its projects.

12 IFC Project Information & Data Portal. https://disclosures.ifc.org/#/landing

⁸ Common Approach announcement link: https://documents1.worldbank.org/en/publication/documents-reports/documentdetail/099041924212042943

⁹ Data lag by one fiscal year due to timing of data collection.

¹⁰ Data is for all IFC facilities worldwide and includes Scope 1, Scope 2, and Scope 3 business travel and headquarters' food purchase-related emissions. Scope 3 business air travel emissions include radiative forcing. FY20 onward includes the addition of Cool Food Pledge emissions from IFC HQ food purchases. Details have been captured in the Inventory Management Plan.

¹¹ This refers to projects with activities considered climate finance eligible according to the Common Principles for Climate Mitigation Finance Tracking. For CSC methodology, visit https://scorecard.worldbank.org/content/dam/sites/scorecard.worldbank.org/content/dam/sites/scorecard/doc/methodology/RESULTS-Institutional-Net-Emissions-Clean.pdf

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