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

CLIMATE-RELATED FINANCIAL DISCLOSURE

This report is IFC's sixth consecutive disclosure under the guidelines recommended by the Task Force on Climate-related Financial Disclosures (TCFD). The report reflects IFC's perspective that climate change is a material risk and opportunity for our core business and therefore a key component of our non-financial disclosures and business strategy. It aims to provide our stakeholders with material information that accurately reflects the integration of climate considerations into our operations. Finally, it represents IFC's continued commitment to maintain and strengthen our climate-related financial risk assessment, management, and reporting practices. All six reports can be found online 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 aligned with global best practices. Since 2006, IFC has ensured that a third party audits its climate finance numbers to provide independent assurance on its climate finance results reporting.

This report follows the TCFD framework's four thematic areas: governance, strategy, risk management, and metrics and targets.

GOVERNANCE

What's New?

- Updated IFC's Board of Directors and management team on the progress of climate finance and Paris Alignment.
- Integrated the Climate Business Department with the Vice Presidency of Industries.
- Drafted and operationally tested the procedural framework for the implementation of the transaction-based approach to Paris Alignment.
- Finalized the frameworks for the counterparty approach to Paris Alignment in collaboration with the other multilateral development banks.
- Developed sector notes in collaboration with the World Bank.

IFC's Articles of Agreement outline the composition, roles, and responsibilities of IFC's senior governance body, its Board of Directors. The Audit Committee of its Board of Directors plays a key role in overseeing risk management at IFC. Under the direction of its 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 climate business and risk are overseen by IFC's Managing Director, who reports to the President of the World Bank Group on all climate commitments including 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, and MIGA) Board of Directors. Following the climate commitments as part of IFC's 2018 capital increase, in FY21 its 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 and IFC has committed to aligning all new investments

with the goals of the Paris Agreement starting in July 2025 (85 percent starting in July 2023), and further scaling climate finance.

The President of the World Bank Group sets the Group's public climate targets. Progress on targets is reported to the IFC Board as part of IFC's quarterly Investment Operations Report Updates. Separately, the Group also reports annually to its Boards of Directors specifically on climate including progress toward all climate commitments (see Metrics and Targets section for further details). IFC's Board received climate updates and technical briefings on Paris Alignment and climate finance in July 2022 and in February and May 2023. In addition, IFC seeks formal Board approval for most projects, except those approved with delegated authority, many of which entail detailed engagement, particularly in hard-to-abate sectors. In the last fiscal year, there was significant engagement with IFC's Board and management on several projects in hard-to-abate sectors such as chemicals and airports, which resulted in the development of specific strategic approaches for investing in such sectors.

Additional touch points with the IFC Board and management team are **integrated into our 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 Climate Change Action Plan (CCAP) updates, updates on climate finance drivers and calculations as well as Paris Alignment of projects, carbon pricing and climate risk discussions in project Board papers, and deep dives and technical briefings as requested.

Climate is 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 our climate targets. It serves as a hub that informs, trains, and enables IFC investment and other departments — the spokes — to integrate climate into IFC's operations, engage with our clients, and broaden our 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 by building the capacity of IFC staff and clients, providing advisory services, and developing thought leadership 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.

This year the Climate Business Department has been further integrated into IFC's operations. Previously under the purview of the Cross-Cutting Solutions Vice Presidency, the department is now under the Vice President of Industries, who reports to IFC's Managing Director. The Vice President of Industries also oversees all IFC's industry departments as well as the Corporate Portfolio and Operations Management departments. IFC's industry departments are responsible for originating and processing investments, including those that are reported as direct climate financing. This realignment reflects IFC's position that climate change is a material priority to be integrated across all projects, operations, investment cycles, and organizational processes.

IFC is actively integrating climate business throughout the institution through its **Climate Anchors Network**. 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. Regional and departmental Climate Anchors report jointly to their department director and to the Climate Business Director. IFC has hired **Regional Industry Climate Business Development Leads** for each of its regions of operations, who report to their Regional Industry Directors and to leadership in the Climate Business Department. These leads are responsible for identifying opportunities to unlock more climate business in their regions, including cross-cutting opportunities. Regional and industry teams are hiring additional staff at all levels to enhance their climate-related competencies and offerings.

Industry anchors have been playing a similar role in championing IFC's climate business targets and the roll out of Paris Alignment in their respective sectors.

Beyond the Climate Business Department and the industry teams, climate is well integrated into other IFC operations and products. IFC's **Blended Finance team** 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, the team addresses market failures, helps mobilize private investment in pioneering projects and challenging environments, and demonstrates their business case. IFC's **Upstream work** focuses on early-stage market and project preparation work to build a pipeline of well-prepared, commercially viable climate investment opportunities. IFC's **Treasury and Mobilization** Vice Presidency is responsible for issuing climate bonds and mobilizing private capital to reduce climate change vulnerability. The **Environmental and Social Policy and Risk and Environmental, Social, and Governance (ES&G) Sustainability Advice and Solutions** departments ensure that IFC implements appropriate E&S risk-management systems and procedures. The ES&G Sustainability Advice and Solutions department works closely with investment teams and clients to identify, evaluate, and manage ESG risks through clients' adoption of ESG standards.

Climate risk is being further integrated into IFC's enterprise risk framework and operations through a cross-organizational **Climate Risk Working Group (CRWG)**, chaired by the Vice Presidents of Risk and Finance and the Vice President of Industries, and including members from IFC's Climate Business department, **Corporate Risk Management** department, ES&G Sustainability Advice and Solutions, Corporate Portfolio and Operations Management department, and others. In FY23, the Climate Risk Working Group led the efforts to identify and manage IFC's overall exposure to climate-related risks and opportunities. In June 2023, the CRWG presented the findings of an initial scoping exercise to IFC's Corporate Risk Committee (CRC) on a potential roadmap

to integrate climate risk further into overall risk management practices, to be followed by identification of next steps. To further integrate climate considerations into all operations, the Climate Business Department has also begun training business units such as the **Corporate Portfolio and Operations Management** on climate risk and strategy, including Paris Alignment and climate finance.

IFC's **Sustainability Framework** applies to all investment and advisory clients' projects and includes eight Performance Standards (PS), which define clients' responsibilities for managing their environmental and social risks. Climate and Biodiversity risk considerations are mainstreamed into all IFC projects through these Environmental and Social Performance Standards.

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**. Recognizing the importance of embedding good climate governance into the boards of our client and investee companies, the Climate Business Department has developed training sessions for IFC Nominee Directors to build and improve capacity of investee companies on climate change, including climate finance and climate risk.

IFC has also developed climate governance guidance for the private sector through two online resources: **Climate Governance: Equipping Corporate Boards to Mitigate Climate Risks and Seize Climate Opportunities**, and IFC's **Climate Governance Matrix and Tip Sheet for Corporate Boards**. These resources recommend best practices to help boards identify and oversee climate-related risks and opportunities. IFC continues to provide peer review, advisory services, and technical assistance, as well as lend its convening power to support the development of additional taxonomies and standards around the world.

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 and sustainability in financial intermediary investments.

IFC continues to engage formally and informally with private, public, financial sector, and CSOs on climate risk and opportunities, and retains membership in several climate-related corporate leadership initiatives.

STRATEGY

What's New?

- IFC completed the pilot and has mainstreamed Paris Alignment for all new projects in real and financial sectors with defined use of proceeds.
- FY23 own-account investment in climate: \$7.6 billion.
- FY23 mobilization of private capital for climate: \$6.8 billion.
- IFC performed a transition scenario analysis exercise on its portfolio in select sectors.

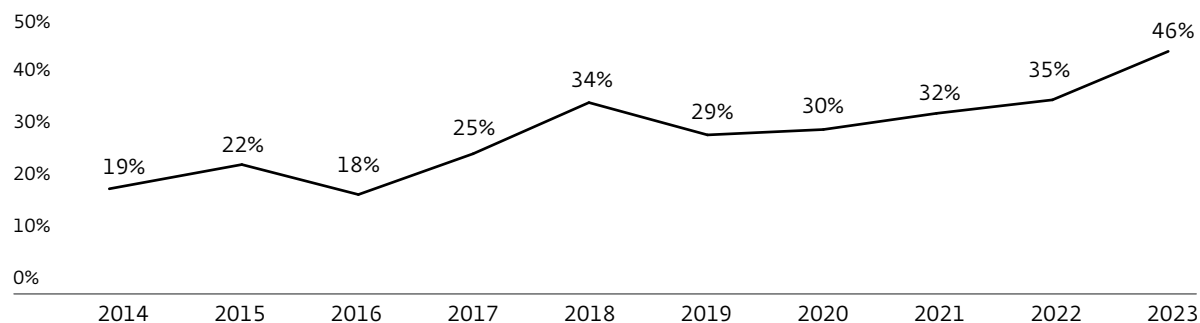
Climate Change Action Plan

IFC's strategic priorities for its climate business are anchored in its Capital Increase Package commitments and the FY21-25 World Bank Group Climate Change Action Plan (CCAP). In June 2021, the Board endorsed the CCAP for FY 2021-25. The CCAP focuses on increasing climate finance to reduce emissions, strengthening climate change adaptation, and aligning 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: energy; agriculture, food, water, and land; cities; transport; and manufacturing. The CCAP 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.

Table 1: Climate Change Commitments: Five-Year Trend

TOTAL CLIMATE FINANCE COMMITMENTS (US\$ MILLIONS)	FY23	FY22	FY21	FY20	FY19
Own Account Long-Term Finance (LTF)	\$ 7,628	\$4,401	\$4,021	\$3,324	\$2,603
Core Mobilization	\$ 6,769	\$3,346	\$3,610	\$3,500	\$3,172
Total	\$14,396	\$7,747	\$7,631	\$6,824	\$5,775

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



As part of this plan, IFC will **increase its direct climate financing** to 35 percent of total commitments on average over the five-year period, significantly higher than the 26 percent average achieved between FY16 and FY20. Additionally, IFC will **align its financial flows with the objectives of the Paris Agreement**. Starting July 1, 2023, 85 percent of all new investments in all sectors are aligned with the Paris Agreement's goals, and 100 percent of these will be aligned starting July 1, 2025.

Climate Financing

In FY23, IFC's total climate-related commitments (both own account and core mobilization) were \$14.4 billion, making it a record year for IFC. At \$7.6 billion, our own

account long-term finance in climate accounted for 46 percent of our new investments (see Table 1).

These climate volumes are a record high for IFC. 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 project design.

IFC creates a pipeline of climate opportunities through direct investments, providing thought leadership, advisory and capacity building services, and private capital mobilization and issuance of bonds through its Treasury operations.

IFC continues to diversify its climate business, identifying new areas of growth. In FY23, IFC retained strong climate business (our long-term own-account investment as well as mobilization) through financial intermediaries (\$4.6 billion), and in renewable energy (\$4.3 billion), urban, transport, and waste (\$2.4 billion), green buildings (\$1.8 billion) and resource efficiency (\$950 million). IFC's industry departments are responsible for originating and processing investments, including those that are considered climate finance.

Our climate finance represents the climate-related value add of our business. This is different from our commitment to Paris Alignment, which ensures that every project adheres to a certain minimum standard.

Paris Alignment

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.

An IFC investment is considered 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 climate-resilient development. IFC directly applies the MDB Principles for Direct Investment operations, Financial Intermediary and General Corporate Financing. The outcome of a Paris Alignment assessment for an operation is "aligned" or "nonaligned." For operations to be aligned, a client may be required to take action before and during the tenor of the financing, as needed.

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 Methodological Principles for Assessment of Paris Agreement Alignment, which consider the specific contexts of the emerging markets within which IFC and the other MDBs operate. IFC

has coordinated closely 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 Financing. Paris Alignment 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.

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. Our implementation plan recognizes and reflects this, with project cycle integration. Climate considerations are included early 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.

Providing Market Enabling, Advisory, and Capacity-Building Services

Market Enabling Activities. Critical to identifying climate opportunities for IFC's operations are the regulatory, legal, and market environments of the countries in which we operate. A crucial part of taking advantage of these opportunities is engaging with stakeholders and helping build the market-enabling environments that are conducive to climate investment and resilient to both transition and physical risks at a macro level.

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. This project involves engaging with stakeholders from the public, private, and financial sectors to develop solutions to incentivize the development of private sector projects in the identified sector for each country. It also 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.

We continue to **develop and set environmental and social standards** through our Performance Standards as well as our work on developing national and subnational taxonomies for green finance, green buildings, and other key sectors. In addition to numerous global frameworks including the work on climate finance and Paris Alignment standards and methodologies with other MDBs, our work on **national and subnational taxonomies and standards** encompasses over 25 countries, across Southeast Asia, Sub-Saharan Africa, Latin America and the Caribbean, South Asia, Eastern Europe, and the Middle East and North Africa. A few highlights of this work in FY23 include:

- Global Guidelines for Blue Finance for structuring, evaluating, and monitoring blue bond issuances and blue loans.
- A report on Deep Blue Opportunities for Blue Carbon Finance in Coastal Ecosystems, highlighting the role of tidal wetlands as a potential source of blue carbon credits.
- In collaboration with the World Bank and Global Environment Fund (GEF), we launched IFC's Practices for Sustainable Investment in Livestock Operations, building on IFC Performance Standards that are especially relevant to the livestock sector, and include the promotion of decarbonization pathways, enhancement of climate resilience of operations and prevention of the loss of biodiversity.
- The Sustainable Banking and Finance Network (SBFN), of which IFC is the Secretariat, launched the SBFN Toolkit: Developing Sustainable Finance Roadmaps, in May 2023.

To support our clients in implementing robust systems, we have done substantial work on **promoting standardization and comparability** across such frameworks. In FY23, IFC published its first joint research report and accompanying tools with the Equator Principles Association entitled “Promoting Interoperability Across Environmental and Social Risk Management Frameworks — How the IFC Environmental and Social Performance Standards and World Bank Group Environmental, Health and Safety Guidelines Align with the EU Taxonomy’s ‘Do No Significant Harm’ and Minimum Safeguards Criteria.”

Capacity Building. IFC recognizes that bringing our clients along on the climate journey will be critical to managing our climate risk, engaging in new business opportunities, and implementing our overarching climate strategy. To do so, we work closely with our clients in both real and financial sectors to build capacity on key topics.

We have issued IFC Green Bond Procedures, a **Guide to Green Bond Issuance for Financial Institutions** and work extensively through our **Green Bonds Technical Assistance Program (GB-TAP)** to provide technical assistance to financial institutions on green bond issuances and deliver global public goods through a range of activities and initiatives. To date, GB-TAP has trained over 1,000 professionals from over 300 financial institutions across over 70 emerging market countries and stimulated more than \$2.1 billion in green bonds and \$3.4 billion in social and sustainability bonds. The GB-TAP continued to offer online training in partnership with the International Capital Market Association and several partner universities.

Our in-house expertise helps us develop several **business tools and systems** over the years to build client capacity. For example, our Climate Assessment for Financial Institutions (CAFI)¹ platform helps our client financial institutions assess the climate eligibility of their investments and estimate the development impact of their climate-related activities. By the third quarter of FY23, 252 active climate partner financial institutions were registered to use the tool and over

\$14.4 billion in climate finance was monitored and reported through CAFI. We are applying lessons from a decade of work through IFC’s Excellence in Design for Greater Efficiencies (**EDGE**) Green Building certification system to expand to green cities through the Advanced Practices for Environmental Excellence in Cities program.

In FY23, IFC conducted more than 16 **Paris Alignment training** sessions reaching 800 staff across IFC’s regions and sectors and intends to conduct several more in FY24. Through this training, IFC has provided internal guidance materials to support capacity building, including Paris Alignment assessment questionnaires, case studies, and factsheets. We have developed tools, guidance notes, and training for investment staff to communicate and guide clients on aligning with the Paris Agreement. 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.

Supported by the governments of Japan and the Netherlands, IFC has developed and delivered virtual climate training to 90 staff in three financial institutions to improve capacity in managing climate risk and leveraging climate opportunities. Through the **TCFD for Financial Institutions** advisory program, we have delivered training on climate risk to almost 3,500 participants to help banks that are ready to integrate climate into their governance, strategy, risk management, and metrics and targets per the recommendations of the TCFD.

IFC’s **Green Banking Academy** 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.

These programs not only help us build capacity for IFC 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 this way,

we are helping to develop a potential future pipeline of low carbon and climate resilient investments in both real and financial sectors.

Exploring Creative Solutions to Target New Areas of Growth

In addition to expanding its existing climate business, IFC continues to target new areas of climate-smart growth using innovative tools and solutions.

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 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 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.

Sustainability-Linked Finance. We are helping our clients green their operations based on a clearly identified decarbonization roadmap with innovative financial arrangements. In FY23, IFC continued its sustainability-linked financing by investing 3.75 billion Indian rupees (about \$50 million) for IFC’s own account in a sustainability-linked bond issued by Tata Cleantech Capital Limited (TCCL) in India to increase financing for renewable energy projects and diversify its on-lending into the energy efficiency and e-mobility sectors over the next three years. This is the first such instrument

1. 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.

issued by a private financial institution in India and will support the country's shift to a clean energy economy. Under the structure, TCCL will benefit from a reduction in coupon rate should it achieve the key performance indicator targets as set under its sustainability performance targets.

Country Climate and Development Reports. In FY23, IFC, the World Bank, and MIGA continued to strengthen the Country Climate and Development Report (CCDR) as a diagnostic tool, and 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. In FY23, the World Bank Group published 23 CCDRs covering 27 countries. 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 World Bank Group country engagement products, including IFC's Country Private Sector Diagnostics. These reports will form the foundation for building internal climate capacity, engaging in market development activities, 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 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 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 GHG abatement is not possible (heavy industries), we focus 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. We have developed comprehensive sector strategies and roadmaps for key sectors, such as chemicals, and are developing more for circular economy, construction materials, electric vehicles value chain and battery manufacturing value chain.

Biodiversity Finance and Nature-Based Solutions. IFC recognizes that climate and biodiversity are deeply interlinked and managing the risks and opportunities for one is incomplete without addressing the other. This principle is enshrined within the CCAP for FY 2021-25, and we are working to articulate the business case for biodiversity finance and nature-based solutions 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. IFC is an active member of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) Working Group on Nature and the World Economic Forum Working Group on Biodiversity Credits and is engaged with other MDBs through the Nature Heads and Climate Heads fora. We sit on the Advisory Committee on Resource Mobilization established by the UN Secretariat of the Convention on Biological Diversity. IFC was an early member of the Informal Working Group that shaped the Task Force on Nature-Related Financial Disclosures (TNFD), and we continue to be a part of the TNFD Forum with organizations that recognize the impetus for and opportunity in biodiversity finance. IFC is currently assessing its own capabilities on reporting along TNFD guidelines and helping clients do the same, pending finalization of the framework expected in calendar year 2023.

In FY23, IFC developed and launched the world's first [Biodiversity Finance Reference Guide](#), which builds upon the Green Bond Principles and Green Loan Principles and provides an indicative list of investment projects, activities, and components that help protect, maintain, or enhance biodiversity and ecosystem services, as well

as promote the sustainable management of natural resources. This reference guide helps IFC and other investors identify investment activities that generate biodiversity co-benefits, support nature restoration and conservation, and integrate nature-based solutions into infrastructure projects. IFC has also updated the guide to map the investment activities to the targets in the Global Biodiversity Framework.

Private Capital Mobilization and Bond Issuances. **IFC's Treasury Operations:** 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. In FY23, IFC raised \$2 billion in green bonds across 20 trades in six different currencies.

In FY23, IFC issued its first green bond in the Australian dollar market, raising 900 million Australian dollars for climate-friendly projects, which is the largest Australian dollar green bond issued by a multilateral development bank in 2022 and is also IFC's largest "Kangaroo" transaction in over a decade. The proceeds of the bond will be earmarked for climate-smart projects, including clean energy, energy-efficient buildings, transport, green banking, agriculture, and climate adaptation in developing economies.

Resilience of Strategy (Scenario Analysis). IFC continues to develop an approach to ensure the resilience of our business in the face of physical and transition impacts of climate change. We engage with MDBs, financial institutions, industry specialists, consulting firms and other stakeholders on the most appropriate factors, indicators, tools, scenarios, and data sources to deploy. While we work to develop a cohesive methodology and strategy to fully integrate climate risk into our overall risk management, in the interim we are trying to build resilience at different levels of our business:

- **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

SPOTLIGHT:

Private Capital Mobilization through the **Managed Co-Lending Portfolio Program One Planet**

Climate transition has created opportunities for IFC to develop innovative structures to attract and mobilize private capital from institutional investors leveraging IFC's environmental, social, and corporate governance (ESG) practices. At COP26, IFC announced its intention to develop MCPP One Planet, the world's first portfolio of Paris Aligned

emerging market senior loans. \$2.5 billion have been raised to-date from three investors for One Planet which was operationalized in September 2022. Under this platform IFC shares with investors enhanced impact reporting, mapping to the Sustainable Development goals, assisting the investors to tangibly demonstrate their contributions to the climate agenda and development more broadly. In addition, One Planet also provides enhanced ESG risk reporting on underlying investments to assist investors in meeting the "do no harm" disclosure requirements resulting from a growing body of regulation, such as the Sustainable Finance Disclosure Regulation (SFDR) in the EU. In FY23, IFC committed \$1.75 billion with borrowers under the One Planet program.

projects are assessed using tools that incorporate climate scenarios. We are evaluating the resilience of our portfolio by considering carbon lock-in risk, potential stranded asset risk, and exposure to physical climate risks in of our investments, in a longer time horizon than simply our project tenor. With each project now assessed for both mitigation as well as adaptation and resilience components of Paris Alignment, IFC is building a green, low-carbon, climate resilient portfolio.

- **Portfolio and balance sheet level.** IFC continues to explore approaches to integrating climate risk into our overall risk-management framework. Our portfolio mainly comprises unlisted, private clients in emerging markets, which limits the applicability

of existing tools, climate data, and approaches available today in the market. In FY23, IFC piloted an approach to conduct an exploratory transition scenario analysis on selected clients in sectors with potentially material high-risk exposure to transition risk such as the oil, gas, mining, and power sectors. This exercise leveraged the scenario framework of the Central Banks and Supervisors Network for Greening the Financial System (NGFS) and industry-based emissions intensity data, and assessed the financial, credit risk, and market risk impact to their portfolios. A bottom-up approach was taken to project each selected client's financial statements over several time horizons under different climate scenarios and several assumptions.

RISK MANAGEMENT

What's New?

- 100 percent physical climate risk screening for all IFC's operations in real sectors with tools, methodologies, and approaches in place.
- Physical and transition risk incorporated into Paris Alignment approaches and roll-out.

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 team. It develops and helps implement and monitor tools and approaches such as carbon pricing and climate project tagging.

Integrating Risk Assessment in Paris Alignment Frameworks. In FY23, IFC integrated our existing climate-risk management of both physical and transition risk into IFC's Paris Alignment frameworks. IFC's systems were updated to enhance accurate documentation, calculations, and reporting of climate volume and climate percentages of projects. We also equipped our IT systems with Paris Alignment transaction-based assessment questions to evaluate adaptation risk for all projects and mitigation-related risk for all financial institution projects.

Physical Risk.² 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

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.

IFC's projects has been integrated into the adaptation and resilience (BB2) component of Paris Alignment, whose 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 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 Climate Risk Portal, a one-stop-shop platform used by IFC teams to identify and manage the exposure and vulnerabilities of potential projects to physical climate risks. The portal comprises the Geoviewer tool and Sectoral Climate Risk Screening toolkits and is used to assess over 400 new investments annually.

- The *GeoViewer* tool assesses a project's exposure to climate hazards based on its location and provides investment teams a comprehensive high-level climate exposure and risk 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 scenarios for 50th and 66th percentile probability.
- IFC has developed *Sectoral Climate Risk Screening Toolkits* to screen projects in Airports, Roads, Railways, Mass Transport, Ports, Insurance, Financial Institutions, Forestry, and other sectors for exposure to physical climate risk. In addition, in FY23, IFC developed climate risk sectoral notes covering all sectors that IFC invests in, and which provide granular sector and sub-sector specific guidance for the systematic screening of physical risk and adaptation assessment.

Transition Risk.³ This bottom-up approach to evaluating each project's emissions and a commitment to climate finance has allowed IFC to develop a robust

and climate resilient portfolio over time. As a result, IFC has limited or no exposure to fossil fuels, coal power generation and upstream oil and gas investments. The majority of IFC's power sector investments are now in the renewables sector.

IFC has also developed a Green Equity Approach (GEA) to help our financial sector clients take on ambitious commitments to reduce coal in their portfolio and continue to do business in a changing climate. This more formalized approach and its application to equity, sub-debt, and convertible loans is consistent with the Paris Agreement. 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. Since January 1, 2023, IFC has required a commitment from FI clients to not originate and finance any new coal projects from the time IFC becomes a shareholder. To further reduce exposure to coal, IFC does not provide 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 the GEA, IFC seeks to help our financial institution clients increase their climate lending and reduce their exposure to coal-related projects.

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 (mtCO_{2e}). IFC's experience with climate finance has enabled us to ensure that our projects are evaluated for and use best available technologies that reduce emissions and enhance climate resilience to the degree possible.

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 its Board papers. The price levels continue to be consistent with the High-Level Commission on Carbon Prices and with the World Bank. Where applicable, carbon pricing is also integrated into our 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.

As noted above, IFC incorporates transition risk into our Paris Alignment process, particularly for the 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 mapped decarbonization pathways for hard-to-abate sectors such as chemicals and mining and continues this work for other carbon-intensive sectors. Our counterparty-based approach for Paris Alignment of financial intermediaries and corporates also requires clients to commit to decarbonization pathways and better climate-related risk management, where needed.

Enhancing Clients' Climate Risk-Management Capacity. IFC offers a range of technical climate assistance, advisory, and investment services according to the client's level of maturity and readiness for investment. This includes capacity building support for climate risk assessment and management to support alignment with the goals of the Paris Agreement.

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.

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, and we have developed an executive training program with the UN Sustainable Stock Exchange to help emerging market banks understand, identify, and manage climate risk. 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 as well as develop national green taxonomies.

IFC continues to use the CAFI tool to improve transparency in climate reporting by the financial services industry, assess the climate eligibility of our investments, and estimate the development impact of our climate-related activities. In FY23, IFC enhanced the functionality of the CAFI tool by linking it to IFC's EDGE database for green buildings, to enable users to automatically import data on green building project impact, thereby improving the efficiency and reliability of the tool. The tool was also updated to reflect the most recent Common Principles for Climate Finance Mitigation Tracking, exponentially increasing its efficiency and usage across both investment and advisory financial intermediary projects.

METRICS AND TARGETS

What's New?

- Climate investments comprise 46 percent of IFC's own-account FY23 commitments.
- 90 percent of new real sector projects and 100 percent of new financial sector projects with known use of proceeds were assessed for Paris Alignment at the concept review stage.

At IFC, climate-tagged investments are those that reduce GHG emissions or increase climate resiliency, as measured by the **Joint MDB Methodology for Climate Finance Tracking**, which is regularly updated to account for the evolving market context, limit climate-related risks, and take advantage of new climate opportunities. IFC has been actively involved in the development and updating of the methodology for both mitigation and adaptation. 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. To improve climate finance tracking, the Common Principles are updated every two years jointly by the MDBs and members to incorporate their experiences and address comparability of reporting processes. IFC is leading the midterm update of the **Common Principles for Climate Mitigation Finance Tracking**, which are due to be published at the end of 2023. IFC has also developed internal climate finance methodologies to expand upon and interpret the Common Principles in the context of our business, such as the Climate Smart Agriculture approach and the Excellence in Design for Greater Efficiencies (EDGE) Green Building certification.

For tracking adaptation finance, IFC applies the Joint MDB Methodology for Adaptation Finance, which was reviewed and updated by MDBs over the 2021-2022 period. IFC is also exploring the potential of additional metrics for adaptation and resilience finance, which would measure the outcomes of resilience investments and interventions.

Climate Finance Targets & Results. In FY23, IFC's climate investments⁴ comprised 46 percent of total own-account commitments, exceeding the corporate target of 35 percent. *For additional details, please refer to the Strategy section of this TCFD 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 long-term finance own account commitments.

Paris Alignment Targets & Results. As stated earlier, IFC 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. Meeting Paris Alignment targets is part of the corporate performance scorecard for the Climate Business Department. IFC's Paris Alignment 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. 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.

In FY23, IFC screened 90 percent of eligible real-sector projects with defined use of proceeds at concept stage for alignment with the Paris Agreement. Similarly, IFC exceeded its target by assessing and aligning 100 percent of eligible financial sector projects, amounting to 111 projects with defined use of proceeds, of which 47 were committed in the last fiscal year. The corporation is committed and on track to achieve both 2023 and 2025 targets for real and financial sector operations.

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

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 and Social Bond Impact Report*, IFC also reports on the expected environmental impact of projects financed through the green bonds that IFC issues. The IFC Green Bond Program follows best practices and 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, 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 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 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, 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*,⁵ and project level emissions through the Project Disclosure Portal in support of the review of projects and clients under Performance Standard 3.

In FY23, IFC transferred responsibility for the calculation of ex-ante absolute GHG project emissions from the E&S Department to the Climate Business Department to consolidate climate-related metrics in one team. This involved working through the project cycle to improve climate knowledge management and merge 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 and disclosures using methodologies that are both feasible and practical for implementation in the real world to eventually facilitate ex-post GHG data.

IFC continues to provide guidance and resources to build capacity in emerging markets through publications such as *Technical Guidance for Financial Institutions – Assessment of Greenhouse Gases* to guide financial institutions in the disclosure of GHG emissions.

IFC Corporate. IFC has been carbon neutral in all our business operations including business travel (Scope 1 and 2 emissions) since FY2009. 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 FY2019, 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. More information, visit: www.ifc.org/en/about/corporate-responsibility

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