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IFC's Sustainability Strategy

Organization Background

International Finance Corporation (IFC), a member of the World Bank, was established in 1956 as a private investment and asset management company with headquarters in Washington, DC. Initially, they were more closely aligned financially with the World Bank Group. Afterwards, IFC was founded separately and was granted permission to function as a financially autonomous body and make independent investment choices. IFC's stated mission is to mobilize financial resources for private enterprise, promote open and competitive markets, assist businesses and other private-sector entities, create jobs, and provide essential services to those vulnerable to poverty or other hardships. While pursuing their mission, they have always kept their core values at the center of all their decisions and actions, which include impact, integrity, respect, teamwork, and innovation. [(3)]

IFC employs approximately 4,200 employees who represent over 150 countries and speak over 50 languages, making it critical for the organization to foster a culture that acknowledges values and capitalizes on what makes IFC distinctive. [(4)] The company's operations extend across its 185 member nations. A governor from each member nation serves on the IFC's Board of Governors, which meets yearly and oversees the organization. Although the IFC is owned and governed by their member nations, the company maintains a separate executive leadership and staff that manages their everyday operations. The shareholders are the member governments, who provide paid-in capital and have voting rights.

IFC follows the in-house created system of Anticipated Impact Measurement and Monitoring (AIMM), which allows them to filter potential projects and set realistic targets. Due to the evident success of this framework, investors from across the world, including donor governments, multilateral institutions, and general bondholders, confidently invest. Loans from the IFC to companies and private projects typically have maturities between seven and twelve years. To satisfy the borrowers' currency and cash flow needs, they choose an appropriate repayment plan and grace period for each loan separately. [(5)]

Since 2009, IFC has centered its attention on a number of development objectives that their programs are supposed to pursue. Their objectives include expanding opportunities for sustainable agriculture, enhancing healthcare and education, expanding access to capital for microfinance and business clients, advancing infrastructure, supporting the revenue growth of small businesses, and making investments in climate solutions. Notably, IFC's

determination to end poverty and boost shared prosperity by stimulating growth in private enterprises within developing economies has resulted in investments worth $321 billion till 2022. [6]

Definition of Sustainability in this Organization

The institution's definition of sustainability has been created unique to their operations. IFC chooses projects to fund based on the impact the projects will have on the global Sustainable Development Goals (SDGs) agenda. They follow the aim to attain their sustainability goals by focusing on implementation, which is consistent with their policy and performance standards. IFC activities help to achieve numerous SDGs. SDGs 1 and 10: 'No Poverty' and 'Reduced Inequality' are key to the IFC's mandate and align with the World Bank Group's dual aims. At the strategic sector level, IFC promotes investment and advisory initiatives in infrastructure, agriculture, financial inclusion, health, and education—all of which are connected with SDGs 2, 3, 4, 6, 7, and 9. Across sectors and regions, IFC aspires to support job creation and economic growth, gender equality, environmental and social sustainability, and climate change adaptation and mitigation—all of which are connected with SDGs 5, 8, 11, 12, and 13. Furthermore, IFC has focused on collaborating with private investors to mobilize new funding sources, which is in line with SDG 17. [7]

Figure 1 IFC strategic alignment with SDGs [8]

Sustainability is essential to IFC's activities to achieve development amid global uncertainty. They are dedicated to assisting nations in overcoming these obstacles and working toward a more resilient and sustainable future. The Sustainability Framework and the Corporate

Governance Methodology both serve as the cornerstones for their capacity-building efforts at the client and market levels, as well as for their sustainability investments, work on climate change and gender issues, issuance of green and sustainability bonds, and impact investing. Additionally, enhancing their internal and external capabilities and revamping and updating their procedures, systems, and tools are all part of their ongoing dynamic transformation process to manage E&S risks more effectively.

Clients of IFC must achieve their environmental and social performance requirements since these elements contribute to project sustainability. As a result, sustainability is crucial to the institution. However, not only IFC-supported projects adhere to IFC performance requirements. Even projects in which IFC is neither an equity partner nor a creditor choose to follow or are motivated by the performance requirements because they are advantageous. The adoption of the IFC's standards by stakeholders in developing markets contributes to establishing Environmental, Social and Governance (ESG) best practices as a baseline for encouraging ongoing growth of ESG performance for private enterprises in emerging countries. [(1)] Financial institutions, export credit agencies, and development finance institutions all across the globe have embraced the IFC's Environmental and Social Performance Standards which include risk management, labor, resource efficiency, community, land resettlement, biodiversity, indigenous people, and cultural heritage. [(2)]

Information on ESG management and outcomes is critical for bridging knowledge gaps between market players such as firms, investors, and other stakeholders. These disparities influence how assets are valued and may limit enterprises' capacity to acquire funding, shift to more responsible business practices, and help establish a resilient economy. As a result, transparent reporting of all their activities is essential for IFC to further develop their definition of sustainability. [(9)]

IFC includes non-environmental factors such as expanded standards on Labor Rights, Human Rights, Community Health & Safety, Community Engagement, Indigenous People, and a Disclosure Policy. Specifically, IFC's value proposition for employees places a high priority on Diversity, Equity and Inclusion (DEI). Inclusionary leadership, a culture of performance management, and gender equality are the three strategic priority areas on which their DEI initiatives are concentrated. IFC's Inclusion Index, derived from its Employee Engagement Survey, is one method the organization assesses inclusive leadership. Their total Inclusion Index has been stable at 63 percent since 2019 and has improved by 3 percentage points since 2016. IFC has selected their first DEI program manager. With this new position in place, IFC is focused on executing global, regional, and country-level initiatives and expanding their efforts to attract, retain, and advance people from diverse backgrounds and talents. IFC promotes gender equity in career growth and development by ensuring equal compensation for equal performance, gender bias awareness training, incorporating gender equality targets into performance assessment plans for managers, and enabling men to take complete paternity leave. [(4)] Hence, gender equality efforts have made IFC a more appealing workplace for women. In Fiscal Year 21, women had an average tenure of 8.7 years, while males had an average tenure of 8.2 years. For the previous three years, female worker retention has been influenced by a more significant number of promotions and lower turnover when compared to males. [(9)]

Leadership

“We continue to increase our climate-related commitments, and we are on track for all direct investments to be aligned with the Paris Agreement by 2025. We are also building on our legacy of setting global standards, launching new green taxonomies for climate-friendly projects or issuing guidelines for blue finance to promote the blue economy and save our oceans,” said Makhtar Diop, Managing Director (MD), in his IFC Annual Report 2022 letter. [(4)]

Makhtar Diop previously held the World Bank’s Vice President for Infrastructure role in which he led the institution's efforts to build sustainable infrastructure. Coming from a sustainable background, he has the topic deep-rooted in his role of MD looking forward. He constantly keeps himself updated on the ever-evolving topic of sustainability to ensure that IFC remains as the leader of sustainability in the global arena.

In an article published by GreenBiz, Makhtar mentioned that private sector investments are critically needed to transition to net-zero carbon emissions successfully. He further discussed that the matter is particularly true in emerging nations, which are predicted to have the fastest-growing emissions sources and the greatest vulnerability to climate change. These nations require green investments that are suited to their demands for growth. IFC projects that up to $23 trillion in investment would be needed by 2030 to fulfill the climate change pledges set by 21 emerging market nations. To battle the epidemic, governments are already overextended; thus, raising private finance is essential. Hence, Makhtar is determined to commit resources to such countries with IFC investments. [(13)]

Makhtar was also featured in the World Economic Forum’s The Digital Economy segment, where he talked about the importance of bridging the divide to educate and empower women since it is the women in developed countries who are unable to use the digital platform due to a lack of education in the matter. In 2021, IFC committed more than $1 billion to the telecom sector, with three-quarters of that fund going to Africa. IFC intends to combine funds similarly to invest in the digital infrastructure in 2022 and subsequent years to increase connectivity and to ensure that everyone, including women, has full access to the digital economy. [(14)]

Makhtar and the Executive Vice President of IFC manage the organization's climate business and risk and report to the World Bank Group's President regarding all climate commitments, including the accomplishment of IFC's business climate commitments, assessment of climate risk, and operational Paris Alignment. [(4)]

Mary Porter Peschka is the Director of Sustainability (ESG) and Gender Solutions. She was previously the Director of Advisory Solutions and hence was internally hired. She reports to the Vice President of Cross-Cutting solutions, Emmanuel Nyirinkindi, who directly reports to the MD. Her department, which employs more than 100 ESG and gender specialists, conducts ESG due diligence investigations on every future investment project and has examined over 10,000 projects from IFC's historical portfolio. In addition to playing a crucial role in risk management, the department supports and upholds IFC's position as a global leader in sustainable development. It does this by leading IFC's ESG innovation practice,

which is focused on progressing ESG data and technology solutions for developing markets, progressing gender equality, and economic inclusion, as well as serving as a generator of excellent suitable practice materials for clients and other stakeholders. [11]

It is evident that she is open to new ideas because, for example, her team has created an artificial intelligence platform to aid in better analyzing ESG data. The artificial intelligence platform, MALENA, was built to aid in analyzing ESG data sets and offer market-level insights. It has been taught to examine many documents and studies on sustainability, including their project portfolio spanning decades. As Mary's team continues to evaluate the platform's capabilities internally and with partners, it demonstrates remarkable promise for enhancing ESG data quality. [10]

In an interview for The Himalayan, when asked about project costs increasing when accounting for ESG standards, she explained that adopting environmental, social, and governance norms is more of an investment that can yield favorable financial results. She also highlighted that, while the initial costs may be significantly high, it is worthwhile and has been shown with higher returns for organizations based on a Harvard Business School study. Thus, Mary’s interview revealed the positive business case of being more sustainable. [1]

Mary’s high level of authority can be recognized when she was the signatory on behalf of the IFC in the recent signing of the Amman Stock Exchange (ASE) with the IFC. This guide, which outlines the procedures and reports required for listed firms to disclose climate change, will be released by the ASE as the first exchange in the Middle East. Mary’s team will support the development and release of a climate disclosure guidance to serve as a handbook for implementation by listed companies. They will also provide technical support and training to the staff of the exchange and its listed companies to improve their awareness and knowledge with regards to problems related to the disclosure and reporting on actions taken by companies to address the challenge of climate change. [12]

Importance of Sustainability

Sustainability is an integral part of the organization. The IFC Sustainability Framework articulates the Corporation's strategic commitment to sustainable development and is an essential component of IFC's risk management methodology. The Sustainability Framework consists of IFC's Environmental and Social Sustainability Policy and Performance Standards and the IFC's Access to Information Policy. The Policy on Environmental and Social Sustainability outlines the IFC's environmental and social sustainability commitments, duties, and obligations. [7] To increase business in competitive markets and in a sustainable manner, IFC updated its internal Environmental and Social Review Procedures (ESRP) for Investment Operations in FY22. This resulted in introducing a more effective, differentiating process for regular and high-risk projects. [4]

For IFC's climate risk assessment tool, they are developing an ESG feature. This module will use the Performance Standards and Corporate Governance Methodology to determine project-level impacts, conduct risk assessments, suggest adaptation measures, evaluate internal controls over climate risks, and consider both climate opportunities and threats in

sponsor strategy, supporting their commitments related to the Paris Alignment. Additionally, the updated version of IFC's Corporate Governance Methodology includes a "Climate Governance" parameter centered on managing climate-related risk in our investment activities. To assist boards and senior management in addressing climate risk, this effort will enable the creation of advisory service offerings and knowledge products. [(4)]

The World Bank Group Board approved the revised Climate Change Action Plan (CCAP) for FY 2021–25 in June 2021. The CCAP focuses on boosting climate finance to lower emissions, improve adaptation to climate change, and line up financial flows with the objectives of the Paris Agreement. It offers a road map for coordinating climate and development goals using new diagnostics, prioritizing transition in five critical systems that account for 90 percent of emissions and face tough adaptation challenges, increasing financial support for the transition, including by enlisting private capital and assisting international efforts to raise and deploy concessional financing, and more. By the new promises, IFC will expand its direct climate funding to 35 percent of overall commitments on average over the 5 periods, a marked increase from the 26 percent average attained between FY 2016 and FY 2020. [(4)]

IFC was also the first UN agency and multilateral development bank to report its greenhouse gas emissions to the Carbon Disclosure Project in 2009, the world's largest corporate climate change data source. The most significant source of their carbon footprint, after business travel, is power consumption in office buildings. IFC looks for energy-saving options for their worldwide real estate portfolio, consisting of owned and rented properties. While they have complete control over their properties, renting out space lets them choose offices in buildings that have received green certification. For instance, IFC's headquarters hold EnergyStar and LEED Platinum certifications for existing structures, and energy-saving initiatives have decreased the facility's overall power use by 22 percent since 2007. [(22)]

IFC, alongside CDP, released the Analysis of Best Practices in Environmental Disclosure Policies Report assessing the current quality standards in environmental disclosure, looking at more than 100 disclosure methods across developed and developing economies. The report, created in collaboration with the United Nations Sustainable Stock Exchanges Initiative (UN SSE), also provides concrete examples of creating high-quality regulations that respond to investor and market demands and encourage private capital flows toward sustainable solutions. This report's purpose was to help regulators identify quality standards in developed jurisdictions with vibrant financial markets, expose them to the environmental disclosure policy landscape in emerging economies, and give them a framework to establish better rules. [(21)]

As mentioned previously, MALENA was chosen as one of the Global Top 100 projects for using artificial intelligence to address issues about the Sustainable Development Goals. MALENA will evaluate large unorganized amounts of ESG data, boost analyst productivity, improve ESG risk detection, and supplement established ESG data sources when coverage is lacking. [(20)]

The above-mentioned is all important because it shows that IFC is always going above and beyond to be at the forefront in the world of sustainability. This would not have been

possible if sustainability was not embedded at the core of the company's values, missions, and vision.

Relationship with Suppliers and Partners

IFC addresses sustainability amongst its internal organization, the funded companies, the government, and other investors. IFC does Integrity Due Diligence (IDD) on its business partners and clients. This is akin to the finance industry's "Know Your Customer" procedure. IDD is crucial to ensuring that IFC works with respectable and sustainable corporate partners for its investments to be successful, its resources to be used efficiently, and its development goals to be realized. [23] IFC's IDD approach applies to all IFC engagements, from short-term consulting programs to long-term loan finance and equity investments. The IDD procedure applies to entities and persons whose engagement in a project might have a significant detrimental impact on IFC's reputation. This often comprises major shareholders and their ultimate beneficiaries, board directors, and senior managers. Other parties are also subjected to IDD, such as co-investors, contractors, agents, advisers, consultants, suppliers, and other service providers. [18]

In addition, IFC partners help carry out national and international strategic goals by contributing to their efforts to advance knowledge transfer and global standards. IFC is working with its partners on a wide range of strategic goals, including continuing relief and recovery operations, climate response and energy transition, food and energy security, healthcare resilience, a sharper focus on fragility, and digital transformation. [4] IFC partners with industries and stakeholders to identify and provide innovative solutions which create opportunities for economically, socially, and environmentally sustainable private investments. Their development partners provided $390 million for IFC advisory services in FY19 and $122 million for integrated finance projects, including in the world's poorest nations and unstable and conflict-affected regions. These programs aided efforts in high-priority fields, including industry, agribusiness, infrastructure, gender, climate, and financial inclusion. [16]

Client's responsibilities towards managing their environmental and social risks are required to be followed according to the Performance Standard. To maintain long-term survival and competitiveness, their clients in emerging markets must have good risk-management processes. Millions of people will have long-term opportunities to overcome poverty and better their lives thanks to the jobs that sustainable enterprises produce. [17] The ESG Standards developed by IFC include the Performance Standards, which specify clients' obligations for managing environmental and social risks, and the Corporate Governance (CG) Methodology, which outlines a method for assessing and developing clients' corporate governance. [7] The CG Methodology contains a collection of tools, such as matrices and checklists, suited to each model. These tools aid in examining structural aspects based on five primary factors or CG risk regions. CG Mainstreaming necessitates that CG problems be evaluated in every investment transaction in an organized manner. The IFC CG Methodology understands that no "one-size-fits-all" CG solution exists for their clients. They tailored the CG analysis to suit the various problems faced by different ownership types. The CG Progression Matrix is the critical tool of the IFC CG Methodology, which is organized by four stages of corporate maturity and complexity and highlights the significance of continual

changes in a firm's governance procedures, ranging from beginner to intermediate to expert. Level 1 corporations meet the standards of national legislation, while level 4 companies are officially acknowledged as nationwide and worldwide ESG leaders. [19]

90 percent of IFC's clients are currently aligned with IFC's sustainability efforts since both IFC and their clients firmly believe that ESG support is an integral aspect of reaching long-term goals, bettering their relationships with local communities and other stakeholders, and enhancing their recognition and brand value. [17]

To conclude, IFC has gone through their journey with sustainability in mind from the beginning and is further developing the concept of ESG practices for the benefit of their company, as well as the benefit of the global market as a whole. They truly believe sustainability is a collaborative matter for which they have, and continue to, move forward by establishing strong partnerships from all across the world while achieving "no poverty" and "reduced inequality."

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