# Sustainability Report 2022

MIGA | Multilateral Investment Guarantee Agency
WORLD BANK GROUP

Highlighting MIGA's Second Report under the Task Force on Climate-Related Financial Disclosures

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# A Foreword from Hiroshi Matano

Executive Vice President
MIGA

I am very pleased to present MIGA's second Sustainability Report, which showcases our strengthening commitment to a world that is greener and more purposeful in its response to environmental, social and inclusion challenges. The focus on sustainability goes hand-in-hand with the World Bank Group's Green, Resilient and Inclusive Development (GRID) approach, which pursues poverty eradication and shared prosperity through a sustainability lens. Indeed, we believe that development is inextricably intertwined with sustainability, and that they are mutually reinforcing and lead to better outcomes for everyone.

Yet meeting our goals has become more daunting at a time of compounding global crises. The COVID-19 pandemic has caused unparalleled setbacks in poverty reduction that are being further aggravated by rising inflation and the effects of the war in Ukraine. As a result, in 2022 around 100 million more people are expected to fall into poverty. MIGA is addressing these threats to development by redoubling our efforts to mobilize investment capital from the private sector, which we do by working with our clients to mitigate cross-border investments against political risk. At a time of heightened uncertainty, MIGA's work in de-risking projects is more relevant than ever. At the same time, our commitment to sustainability remains as strong as ever.

**"We believe that development is inextricably intertwined with sustainability, and that they are mutually reinforcing and lead to better outcomes for everyone."**

MIGA is inspired by the innovation and persistence of our partners in devising sustainable solutions to development challenges. We have been particularly encouraged by the work of governments, local communities and investors in pursuing clean, distributed energy, such as solar mini-grids—a low-cost way of generating small amounts of power that is typically independent of the national power grid and that can provide much-needed electricity to communities in remote locations. I was hugely impressed this year when I visited a project we are supporting in Rwanda where we partner with BBoxx, which links people to off-grid, solar power-generated electricity provided on a pay-as-you-go basis using mobile money.

As you read this report, I would draw your attention to important new elements of our work that speak to our ability to deliver faster, deeper and broader solutions to sustainability challenges, specifically:

- the World Bank Group's new climate and development diagnostic, the **Country Climate and Development Reports**;
- the **launch of MIGA's two new Trust Funds**, both

focused firmly on supporting our sustainability goals, including the Renewable Energy Catalyst Multi-Donor Trust Fund, with a special concentration on helping to de-risk mini-grids and off-grid systems; and

- our growing capacity to work with our clients to **foster gender equality and inclusion.**

I hope you will appreciate the range of solutions that are required to address the sustainability challenges we face, and the role that MIGA is playing, working with our partners. MIGA guarantees can address the most difficult development problems in some of the most challenging environments, and provide additionality by giving the private sector the confidence to invest. But at a time of overlapping crises, we recognize that we need to work even harder, and smarter, to address the complex but essential task of sustainable development. We trust this report will encourage you to partner with us as we take on this challenge.

**"MIGA is inspired by the innovation and persistence of our partners in devising sustainable solutions to development challenges."**

# Introduction from Ethiopis Tafara

Vice President and Chief Risk, Legal and Sustainability Officer and Partnerships, MIGA

In these extremely challenging times, MIGA's second Sustainability Report represents a re-doubling of our commitment to green, resilient and inclusive development. **Our approach to sustainability at MIGA, as part of the World Bank Group, is distinguished by three critical principles underpinning our work:**

- The challenges of poverty and inequality, and the challenges of climate change, environmental degradation and inadequate management of natural capital, are interconnected, and thus need to be addressed holistically;
- Creating inclusive opportunities is essential to what we do, especially as compounding crises disproportionately impact the poor and vulnerable; and
- Given the magnitude and urgency of the current crises, our work needs to be innovative, accelerated and scaled.

These three indispensable principles underpin our belief that the private sector has an essential role in leading on sustainability. We emphasize to our private sector clients that sustainable business practices are not only good for people and the planet but for business success and brand value as well. At the same time, customers, investors and local communities increasingly recognize the importance of adopting sustainable business solutions.

For MIGA, our development and sustainability goals are achieved through our support of private sector solutions. In FY22 MIGA contributed to (i) groundbreaking World Bank Group climate and development diagnostics; (ii) enhanced partnerships with our clients; and (iii) innovative projects that have the potential to change the climate finance landscape and lead to more sustainable and inclusive outcomes. Let me share with you examples of how MIGA achieved progress in each of these three areas.

**Importantly, in FY22, the WBG launched the first Country Climate and Development Reports (CCDRs) to support the alignment of development and climate objectives at the country level.** CCDRs aim to inform the policy landscape, including the barriers to scaling up private sector solutions to the challenges posed by climate change. These reports lay out the reforms and investments needed by the public and private sectors. They emphasize the opportunities for the private sector, for example in renewable energy; electrification and

**"The adoption of sustainable solutions is a positive driver of private sector business value and is increasingly important to clients, investors, and communities."**

energy efficiency of transport, buildings and industry; better water and land use management; and wider participation in green value chains. We intend to use the analysis in the CCDRs to engage with our private sector clients and other partners to translate recommendations and policy prescriptions into real-world actions.

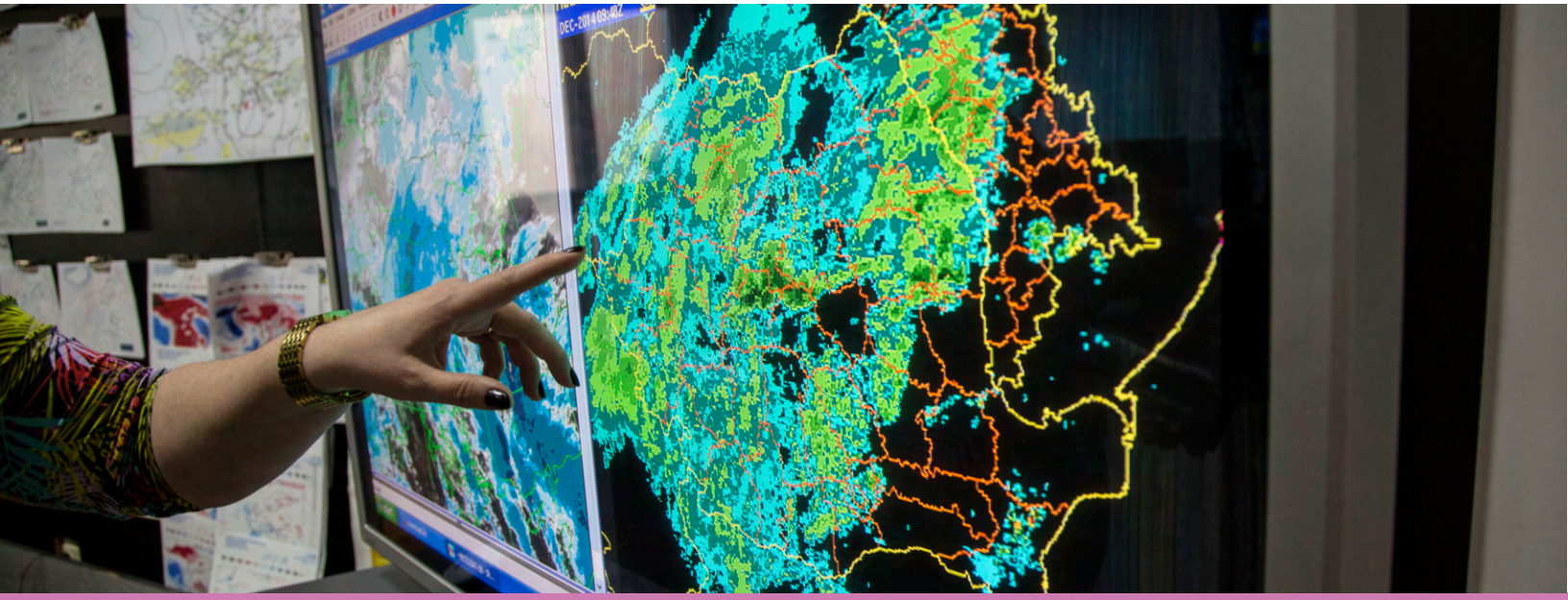
**MIGA's stepped-up focus on sustainability is enhancing our partnership with clients.** For example, with MIGA's new approach to screening our real sector projects for physical climate risks, we are building awareness of the importance of proactive measures to protect against climate risks. We know, based on the evidence, that this is good for business and for development. Our decision in FY21 to begin reporting under the Task Force on Climate-Related Financial Disclosures (TCFD) is evidence of our commitment to make available better climate-related information on our own activities. In the area of inclusion, since launching MIGA's Gender Strategy Implementation Plan in FY21, we have increased our focus on gender equality. This has led to partnerships with several clients to identify intentional actions to narrow gender gaps in the projects we support.

**We are also working to deliver innovative solutions, as well as to scale approaches through collaboration and the use of new platforms.** For example, MIGA is expanding its application of local currency guarantees and creating new applications of products in order to de-risk carbon markets and scale distributed energy. We are also exploring ways to partner with the private insurance market to provide a climate and disaster risk insurance backstop for our projects. These efforts seek to tackle some of the thorniest development challenges.

By way of example, MIGA recently supported the issuance of a sustainable project bond backed by MIGA political risk insurance and a back-up liquidity facility from the European Bank for Reconstruction and Development. By virtue of the structure's risk mitigating features, the transaction attracted institutional investors who were willing for the first time to put money at risk in an emerging market asset. We believe this type of credit enhancement, which in this example resulted in an estimated six-notch credit upgrade from the sovereign credit rating, has the potential to be replicated and crowd in institutional investors for climate activities in developing countries.

**"At MIGA, by operationalizing the principles of our sustainability work, we are redefining what it means for a project to be truly sustainable."**

**At MIGA, by operationalizing the principles of our sustainability work, we are redefining what it means for a project to be truly sustainable.** Careful attention to issues of climate mitigation and resilience, adherence to our world class environmental and social performance standards, and opportunities to enhance inclusion and gender equity, provide a holistic framework for delivering sustainable development. As we look ahead, we will continue to strengthen our sustainability framework, especially by aligning the activities we support with the objectives of the Paris Agreement on climate change. We are committed to aligning all of our projects by July 1, 2025, with 85 percent aligned by July 1, 2023. This will bring us one step closer to realizing our goal of a world where prosperity and sustainability are fully integrated. Our Sustainability Report for FY22 charts our progress and puts us on a strong path toward sustainable investment, impact, innovation and inclusion.



## Highlights of MIGA's Sustainability Achievements for FY22

**$650m**
New lending to women supported through guarantees

**$1.14bn**
in guarantees for climate finance

**88%**
of projects rated satisfactory or better on E&S by Independent Evaluation Group

**2**
New trust funds established for sustainability goals

**17**
Countries with climate finance projects

**593**
thousand tons of CO2e emissions avoided per year

**1st**
Country Climate and Development Report published, for Türkiye

**100%**
of real sector projects screened for climate risks

**2nd**
Report under TCFD disclosure rules

# Supporting the Green Economy in our Projects

## Maximizing the Climate Impact of MIGA Guarantees in FY22

MIGA leveraged its guarantees to support projects with transformational climate mitigation and adaptation benefits in FY22.

- MIGA provided $1.14 billion in guarantees for climate adaptation and climate mitigation finance.
- In total, climate finance represented 28 percent of MIGA's guaranteed investments in FY22—the highest percentage in MIGA's history.[1]
- All of MIGA's climate finance guarantees mobilize private debt or equity in support of climate activities. Additional private capital for climate is mobilized through the reinsurance of MIGA's guarantees.
- Climate finance projects spanned 17 countries across four regions: Europe and Central Asia; Sub-Saharan Africa; Middle East and North Africa, and Latin America and the Caribbean.
- MIGA mobilized private finance for climate in support of projects in low- and middle-income countries.
- Projects signed in FY22 will help avoid an estimated 592,892 tons of carbon dioxide equivalent (tCO2e) emissions per year.
- MIGA supported a record number of projects in FY22 that aim to address climate risks through the addition of project design adaptation and resilience enhancements.
- 100 percent of MIGA-guaranteed real sector projects in FY22 were screened for climate risks using our proprietary assessment tools.

[1] Until FY21, climate finance exposures were reported as a percentage of the total gross issuance volume. From FY22 onwards, MIGA modified the methodology for climate finance reporting to align more closely with the MDB private capital mobilization methodology. MIGA now computes this as a percentage of the underlying loan or equity investment guaranteed, as opposed to the entire guarantee exposure. Under the previous methodology, climate finance exposure would have amounted to $1.2 billion during FY22 (25% of gross issuance), compared with $1.1 billion under the new methodology (28% of the total guaranteed investment).

# Energy projects

MIGA has a successful track record of supporting utility-scale solar, wind, hydropower and geothermal projects, including in the most challenging markets. During FY22, MIGA issued 12 guarantees for projects in the energy sector, which are expected to provide 15 million people with access to new or improved power sources. We also continued our focus in support of groundbreaking renewable energy investments in Africa. MIGA is working alongside the World Bank and the International Finance Corporation (IFC) to develop innovative ways to partner with the private sector in micro- and off-grid solutions that can accelerate electrification to underserved communities. This is an ambitious area of our work that we expect to progress in FY23.

Improving electricity access is a key driver of economic growth. This is especially true in **Malawi**, where the share of the population with access to electricity, at 15 percent, is among the lowest in the world, and where MIGA is guaranteeing the equity investment in support of a new utility-scale 20 megawatt (MW) solar power plant. The project includes the first deployment of battery storage technology in the country, which will help manage the intermittency of solar supply, providing for better load leveling (storing power during low demand periods and delivering power during periods of high demand).

**"Almost one billion people lack access to electricity. Investment guarantees are one of the most important measures we can take with public funds to facilitate the green transition in developing countries."**

Anne Beathe Tvinnereim, Norway's Minister of International Development

Most of the existing generation capacity for the country—71 percent—is derived from hydropower, which makes the country's power supply vulnerable to the impacts of climate change. This project will diversify the clean energy supply in Malawi and avoid more than 45,000 metric tons of CO2e emissions. Moreover, recognizing that climate risks may pose challenges to the optimal performance of the plant over its intended life, a climate adaptation plan with resilience-building measures was designed. These measures will be incorporated into operational plans and procedures, where relevant, as part of MIGA's climate risk requirements for the project.

**Burkina Faso**, also with one of the lowest electrification rates in Sub-Saharan Africa (20 percent, compared with 48 percent for Sub-Saharan Africa overall), and a high level of unmet energy demand, is striving to address its energy access challenges and enhance its energy security. A 20-year MIGA guarantee will cover investors' equity investments in the project, which consists of the construction, ownership, operation and maintenance of a 24MW solar photovoltaic (PV) energy-generating facility.

Burkina Faso has approximately 357MW of installed capacity, mostly from aging and expensive heavy fuel oil generation, and is using imports from Côte d'Ivoire and Ghana to provide base demand. However, the country has excellent solar resources, making solar PV a competitive domestic electricity generation option. In order to increase affordable access and owing to constrained public finances, the government has opted for private sector investments in solar energy generation. The MIGA-supported project is part of the country's first round of solar independent power producer projects (IPPs). MIGA's guarantee for the project benefited from support from the Renewable Energy Catalyst Multi-Donor Trust

Fund (see box), the first MIGA project to do so, as well as the IDA Private Sector Window MIGA Guarantee Facility.

MIGA is also supporting **Egypt's** goal of generating 20 percent of national electricity needs from renewable sources by 2022 through the issuance of a 19-year guarantee to back the refinancing of six operational solar power plants. The plants are part of Egypt's Benban Solar Park, the second largest PV solar park on the African continent and one of the largest in the world. Operational since 2019, the power plants are part of Egypt's landmark solar Feed-in-Tariff Program (FiT Program), which helped mobilize private investment into the renewable energy sector in Egypt. The refinancing is significant from a financial perspective: it successfully reduced financial costs, improved the projects' overall financial viability and generated cost savings to be shared with the government of Egypt.

**"This groundbreaking climate-certified bond is catalyzing opportunities for institutional investors to deliver climate finance in emerging markets and developing economies."**

Junaid Ahmad, MIGA Vice President for Operations

The project is also a highly notable example of innovative financial structuring for climate finance. The refinancing was structured by means of the first private "green" project bond issuance in Egypt. The bond benefits from certification by the Climate Bond Initia-

## Launch of the Renewable Energy Catalyst Multi-Donor Trust Fund

To further support private capital flows into renewable energy projects, MIGA launched the Renewable Energy Catalyst Multi-Donor Trust Fund (RECTF) in FY22. The RECTF will enhance the affordability and accessibility of MIGA guarantees and, by expanding MIGA's ability to de-risk projects of green energy investors, increase bankable renewable energy projects in developing countries. The markets of focus will be those in low-income countries and in Sub-Saharan Africa, where gaining energy access and affordability are key governmental objectives.

The government of Norway, through the Norwegian Agency for Development Cooperation (Norad), is serving as the anchor donor for this multi-donor trust fund and has been a guiding MIGA partner in establishing this facility. The government of Japan is also a donor.

An additional focus of the RECTF is to support distributed renewable energy systems—mini-grids, off-grid systems, residential systems and captive power. These systems are increasingly viable sources of energy alongside traditional national grids, and are the fastest and most cost-effective way to accelerate electricity access and reach 2030 goals, especially in countries suffering from fragility, conflict and violence (FCV). Distributed renewable systems are often developed by entrepreneurs and smaller investors operating with fewer resources than conventional power project development companies. MIGA is looking forward to opportunities to support these investors through the RECTF alongside industrial enterprises in developing countries looking to establish dedicated power solutions as well as larger companies with market and project experience.

tive. Furthermore, the bond meets MIGA's Performance Standards—an international benchmark for identifying and managing environmental and social risks.

A tranche of the bond benefits from both MIGA Political Risk Insurance and a Liquidity Support Facility provided by the European Bank for Reconstruction and Development (EBRD). Thanks to this risk mitigation structure, this covered tranche of the bond was assigned an investment grade rating of BBB+ by Scope, a European credit rating agency, which is estimated to be a six notch upgrade from the sovereign rating. This structure allowed the projects to source funding from a pool of international institutional investors seeking opportunities for green investments, including major institutions for whom these are their first-ever investments in Egypt.

MIGA also continues to work with public sector partners to encourage private companies to support power projects in developing countries, including **Gabon**. Historically, Gabon has suffered from underinvestment in energy generation; as a result, growing demand has been met by expensive and polluting thermal power. The government of Gabon intends to rely on IPPs to bridge the demand gap and make use of its largely untapped hydropower potential to reduce costs and emissions. In FY22 MIGA issued a guarantee for the first IPP project in Gabon, a 35MW hydropower plant. The project is expected to lead to the replacement of existing inefficient and polluting thermal generation and avoid more than 90,000 metric tons of CO2e emissions per year. It will provide reliable and efficient baseload power to help meet growing energy demand, avoid power outages and enhance energy security in Gabon.

**MIGA works with public sector partners to encourage private companies to support power projects in developing countries.**

# Financial institution projects

In FY22 MIGA deployed guarantees to support the greening of financial institutions, with a focus on promoting climate-friendly, sustainable financing. MIGA's capital optimization product was a highly successful vehicle for engaging with banks to increase climate finance and enhance their greening strategies. MIGA's Non-Honoring product also helped to provide financing for climate-smart activities in state-owned financial institutions in Latin America. In total, MIGA signed guarantees to support the climate activities of financial institutions across five countries, of which almost $500 million counted towards MIGA's climate finance targets.

MIGA also supported financial institution clients to help them green their portfolios, grow their climate finance business, and mainstream climate risk assessments. This included:

- Supporting clients' existing capacity and providing guidance on organizational constraints and knowledge gaps related to climate change management;
- Assessing the banks' existing portfolio of loans and providing insights on climate finance opportunities in specific markets and regions;
- Working with clients on relevant climate-related policies and low-carbon and climate-resilient development trajectories;
- Conducting capacity building centered on tools and methodologies to facilitate better climate financing and climate risk management; and
- Providing guidance on enhanced climate-related financial disclosures.

MIGA issued a guarantee in FY22 to Nova Ljubljanska banka d.d. Ljubljana (NLB) of Slovenia in support of its banking operations for a recently acquired subsidiary in **Serbia**, Komercijalna banka a.d. Beograd (KB). The guarantee will enable €65 million in new lending for climate finance activities. As part of MIGA's overall strategic engagement with the client, NLB agreed to develop an integrated climate strategy by creating the necessary systems to account for the climate finance impact of its investments. In addition, MIGA provided capacity building workshops related to climate topics and assistance in evaluating potential climate finance investments.

**MIGA provides technical support to financial institution clients to help them green their portfolios, grow their climate finance business, and mainstream climate risk assessments.**

In **Peru**, MIGA is facilitating the development of a green mortgage market, and helping to promote the greening of the Peruvian financial sector. MIGA provided a Non-Honoring of Financial Obligations (NHFO) guarantee for a loan from JPMorgan Chase of the United States to Fondo Mivivienda S.A. (FMV), a state-owned enterprise that supports housing finance. FMV will use the funds to provide financing to commercial banks offering mortgages as part of its green mortgage program, "Mivivienda Verde". This is a flagship effort of FMV, providing financing for the acquisition of certified, sustainable green housing by vulnerable middle-income households. These new funds will make available an additional 7,000 mortgages for green and social housing in a country where there is a significant housing deficit. (See photo below.)

MIGA, working in **Colombia**, is also helping to support green infrastructure projects. Partnering with MIGA, Financiera de Desarrollo Nacional S.A. (FDN)—a development bank that is majority-owned by the government of Colombia—was the beneficiary of a loan from JPMorgan Chase guaranteed by a MIGA NHFO (sub-sovereign) guarantee. As part of MIGA's dialogue with FDN, the development bank agreed to target 50 percent of the proceeds from the MIGA-covered loan for climate finance projects. In particular, FDN is looking to support sustainable infrastructure projects in priority areas such as urban mobility, renewable energy, energy efficiency and water and sanitation

# Infrastructure projects

Addressing climate risks in infrastructure projects is becoming increasingly urgent. Countries most vulnerable to climate change—including from severe storms, rising sea levels, drought and extreme temperature variation—are also among those countries with the greatest need for new roads, ports, airports and rail networks, as well as other critical infrastructure necessary to overcome poverty and to enhance shared prosperity. MIGA now screens all of the investments it supports for climate risks, with special attention to infrastructure projects, which have an essential role to play in managing the risks and minimizing the negative impacts of climate change. MIGA is deploying its own analytical tools to identify these risks and then, partnering with others, supporting the design of measures to address them.

In FY22 MIGA provided support, through a Non-Honoring guarantee, for the construction of a new 112 kilometer motorway along the West Morava River in **Serbia** (see photo below). The road will connect two pan-European transport corridors and facilitate the movement of 500,000 residents in the region, increasing accessibility to municipal centers and business zones. The motorway lies in a low-level flood plain that is prone to flooding because of extreme river discharge—an episode of which occurred in 2014. As a result, significant river regulation and flood mitigation measures were developed to reduce the likelihood and severity of future floods. The design of the motorway and the river regulation measures were informed by a two-dimensional flood model that evaluated future climate scenarios and assessed the adequacy of proposed climate change mitigation steps. MIGA and the client agreed to several climate risk management commitments in the Environmental and Social Action Plan to help mitigate the risk of flooding and the potential impact on the communities at risk. For more on this, see page 27.

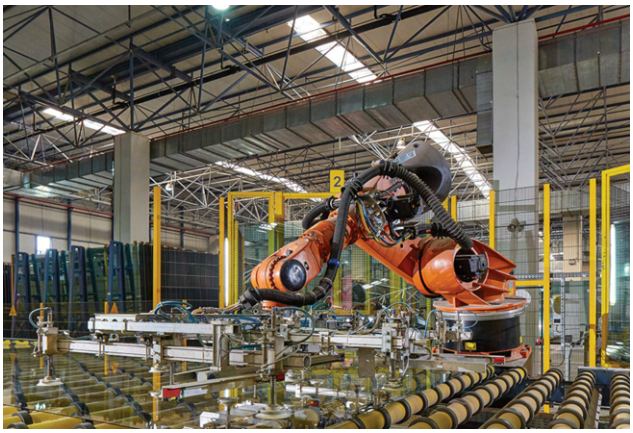
**MIGA is deploying its own analytical tools to identify climate risks, with special attention to infrastructure projects.**

# Manufacturing, Agriculture and Services projects

MIGA is working with clients to decarbonize their manufacturing and services activities by helping them improve energy and resource efficiency, as well as by addressing climate risks in construction projects.

MIGA, working with the IFC, supported these objectives in **Egypt** at the Paşabahçe Egypt Glass Manufacturing company, with the goal of implementing energy and water efficiency enhancements that are expected to eliminate more than 40,000 tons of CO2e emissions per year. Paşabahçe, the flagship business of Turkey-based Sisecam's glassware segment, is the third largest glassware producer in the world and second largest in Europe.

MIGA is also continuing to support projects that enhance energy efficiency in partnership with Kasada Hospitality Fund, a private equity fund established by Accor, one of the world's largest hospitality groups, and Qatar Investment Authority. Kasada plans to significantly increase its portfolio of hotels across Sub-Saharan Africa by acquiring and refurbishing existing hotels, as well as by developing new ones (see photo below). Throughout this process, Kasada has committed to achieving a "green-building" certification for each of these facilities. In FY22 MIGA provided guarantees for equity investments in ten existing hotels scheduled for refurbishment—seven in **Côte d'Ivoire**, two in **Senegal** and one in **Cameroon**. Kasada plans to retrofit these hotels to the energy and resource efficiency standards required for IFC's EDGE green-building certification. An EDGE building must achieve at least a 20 percent savings in energy, water and "embodied energy" in materials compared with a conventional building in the country.




Kasada Capital Management

**MIGA is working with clients to decarbonize their manufacturing and services activities by helping them improve energy and resource efficiency .**

## Project Profile: A Greener Educational and Business Future in Morocco

MIGA's largest guarantee for a climate finance project in FY22 is in support of a new LEED-certified (Leadership in Energy and Environmental Design), climate-resilient campus near Rabat, Morocco for 2,000 students. The proceeds of the MIGA-covered loan facility, utilizing MIGA's Non-Honoring product, will benefit OCP Group, a major mining and fertilizer company in Morocco, to support educational activities at Mohammed VI Polytechnic University (UM6P). The MIGA guarantee of €570 million, of which over three-quarters will count towards MIGA's climate finance goals, supports commercial bank loans with a maturity of up to 10 years for the construction and furnishing of the new university campus. The new campus will offer high-quality tertiary education in fields ranging from economics and political science to hospitality management and artificial intelligence. With a focus on sustainability, the project will seek LEED green-building certification for key facilities. The project will also include the construction of hydraulic structures to enhance the climate resilience of the campus; these structures will lower the flood risk profile of the campus, yielding both climate mitigation and climate adaptation co-benefits.

OCP, Morocco's largest state-owned enterprise, has exclusive rights to mine the country's extensive reserves of phosphate, an essential ingredient in the production of fertilizers. OCP plays a strategically important role in Morocco's economy and national development strategy: It is the country's largest exporter (19.3% of national exports in 2020), largest taxpayer and one of the largest employers (24,000 staff in 2021). With the slowdown in tourism and automotive and aircraft manufacturing during the COVID-19 crisis, OCP's importance to the economy has been amplified. OCP invests heavily in research and development (R&D) to improve the efficiency of its operations and sets sustainability goals, including to achieve carbon neutrality by 2040.

OCP, which owns UM6P, founded the university to fulfill its goals for product innovation, social impact and sustainability, including climate change, climate-smart agriculture and greening the supply chain. OCP relies on the university to carry out most of its R&D activities, with a focus on clean energy, sustainable water management, development of green hydrogen and green ammonia, and the exploration of the beneficial use of waste materials such as phosphogypsum, a byproduct of fertilizer production. In recent years, UM6P has begun offering tertiary education, as well as vocational and technical training, to high-performing, low-income Moroccan and African youth through a competitive program of scholarships. The activities are mainly financed through donations from the OCP Foundation.

University Mohamed VI Polytechnic, Morocco

# Integrating Climate and Development to Maximize Impact Sustainably

## Overview

The World Bank Group's (WBG) *Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development,* endorsed by the Boards of the WBG in FY21, focuses on:

- integrating climate and development;
- identifying and prioritizing action on the largest mitigation and adaptation opportunities; and
- driving our climate finance and leveraging private capital in ways that deliver the most results.

The Action Plan also highlights how MIGA and IFC will support private sector clients in maximizing climate finance opportunities that contribute to low-carbon and climate-resilient development, and makes important commitments to our shareholders.

### INCREASING OUR CLIMATE FINANCE

Thirty-five percent, on average, of MIGA guarantees are targeted for climate finance over the five years of the Action Plan. This is the same goal for the World Bank and IFC and represents a major step up from the 29 percent achieved in FY20 by the WBG. It is an even bigger increase in dollar terms, as the WBG's total financing is also expanding over this period.

### ALIGNING WBG FINANCING FLOWS WITH PARIS AGREEMENT OBJECTIVES

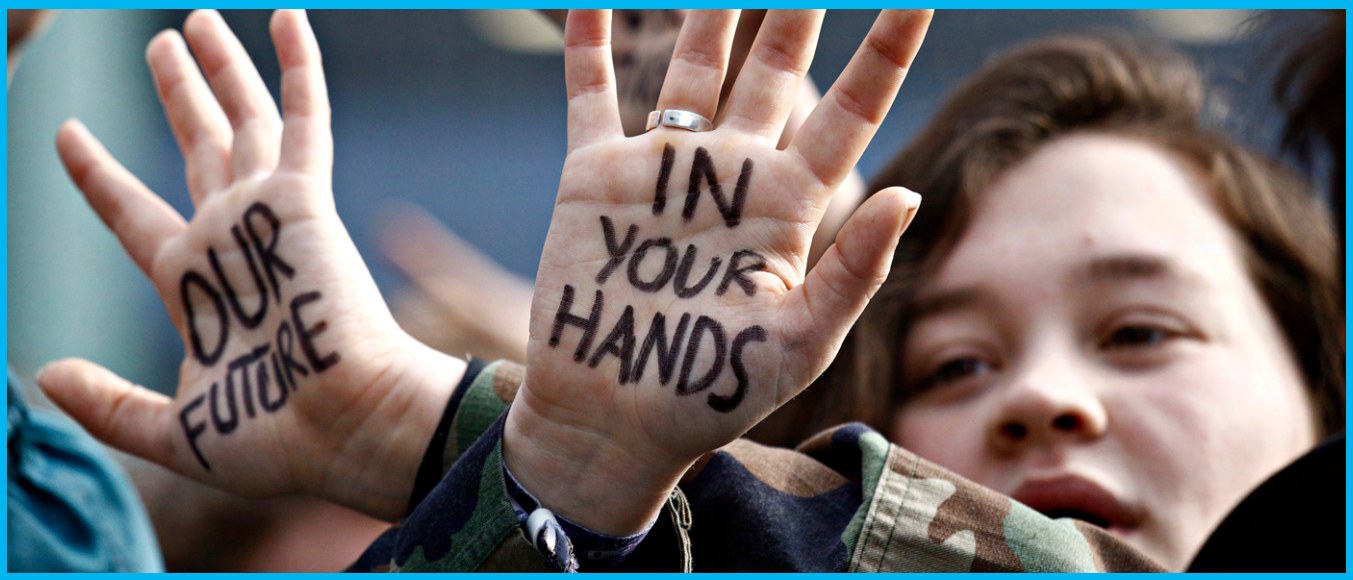
For MIGA and IFC, 85 percent of Board-approved operations will be aligned with the goals of the Paris Agreement starting July 1, 2023, and 100 percent starting July 1, 2025. To achieve this target, MIGA has started assessing all of its projects for Paris Alignment, both for low-carbon development and climate resilience. MIGA's assessments are occurring at early stages of project consideration and other important touch points to ensure alignment with the objectives of the Paris Agreement.

### ENHANCING CLIMATE DIAGNOSTICS

The WBG in FY22 began publishing new diagnostic tools called Country Climate and Development Reports (CCDRs). These individual country reports will integrate climate change and development considerations and help countries prioritize urgent actions to enhance adaptation and resilience and reduce GHG emissions. In June 2022 the first report in the series that eventually will cover all WBG client countries, the Türkiye Country Climate and Development Report, was published.

### PRIORITIZING RESOURCES FOR CLIMATE IMPACT

MIGA's aim is to mainstream climate-change-related diagnostics to better evaluate projects, including



through climate risk screening. To achieve this, MIGA deployed additional resources in FY22 to assess client interventions to reduce GHG emissions and climate vulnerabilities in key systems, including energy, agriculture, food, water, land, cities, transportation, infrastructure and manufacturing.

## Paris Alignment and MIGA's Support of Resilient and Decarbonization Pathways

The Paris Agreement is the 2015 breakthrough international accord to limit global warming to well below 2° Celsius (C) by the end of the century and to make efforts to limit warming to 1.5°C compared with pre-industrial levels. The agreement calls for "making financing flows consistent with a pathway toward low greenhouse gas emissions and climate-resilient development". MIGA, as a member of the WBG, has embraced this objective, as have other development banks and many businesses, financial institutions and governments around the world.

MIGA, as part of the WBG's *Climate Change Action Plan (2021-2025)*, has committed to aligning its financial flows with the goals of the Paris Agreement. MIGA defines alignment as:

- providing support in a manner that is not inconsistent with low-carbon and climate-resilient development pathways and that is compatible with the objectives of the Paris Agreement, and
- that is not inconsistent with countries' Nationally Determined Contributions and Long-term Strategies, as well as other national climate commitments.

MIGA is on track to operationalize Paris Alignment on July 1, 2023 by:

- identifying and managing impacts of climate change that might hinder the development objectives of our guarantee operations;
- supporting countries in their trajectory to a low-carbon development pathway; and
- checking for the consistency of our guarantees with a country's own climate actions in Nationally Determined Contributions and Long-Term Strategies, leading to Paris Agreement climate goals.

MIGA, working closely with the World Bank and IFC, has made good progress in translating definitions for aligning financial flows with the Paris Agreement's objectives into practical guidance for countries and clients, while also developing internal processes appropriate for MIGA's guarantee instruments.

**At MIGA and across the World Bank Group, we are committed to developing frameworks, assessment tools and metrics that will help operationalize alignment with the Paris Agreement.**

For MIGA, 85 percent of Board-approved guarantee operations will be aligned with the Paris Agreement's low carbon and climate resilient pathways starting July 1, 2023, and 100 percent starting July 1, 2025. To achieve this, in FY22 MIGA began preliminary screening of 100 percent of its projects in the real sector for Paris Alignment to ensure readiness for the formal launch of Paris Alignment screening on July 1, 2023. Specifically, all real sector projects presented at MIGA's internal project review committee meetings were assessed and presented to MIGA's senior management under the pilot screening guidance. As a framework for financial institutions had yet to be finalized, a similar approach was not taken in FY22 for these projects. A framework for financial institutions was, however, in place in early FY23, and MIGA is now undertaking pilot screening with financial institutions.

As MIGA moves towards full Paris Alignment of its guarantee operations, we are assessing whether a project advances, hinders or is neutral to meeting the agreement's goals. An operation's alignment considers:

- on climate mitigation, if it actively contributes or does no harm to decarbonization pathways;
- on climate adaptation and resilience, if it identifies and addresses physical climate risks; and
- on economic viability, if it accounts for the risk of stranded assets and transition risks.

It is important to underscore that the Paris Agreement recognizes that countries face different circumstances. The accord therefore provides flexibility in the pathways countries may choose to achieve the objective of low-carbon, resilient development. MIGA will work with its partners to take account of individual country circumstances as they adopt approrpiate pathways.

MIGA and the WBG, as part of our efforts to support decarbonization, will not support projects that we believe are universally non-aligned with the goals of the Paris Agreement. These include the mining of thermal coal, electricity from coal, extraction of peat, and electricity from peat. With regard to oil and gas, the WBG, including MIGA, announced in 2017 that, beginning in 2019, we would no longer finance upstream oil and gas projects; the WBG has not financed any oil pipelines

since 2014. This approach to oil and gas is currently in force and will continue during the period of the Action Plan and in the years beyond.

Natural gas investments may be considered Paris-aligned in countries where there are urgent energy demands and no short-term renewable alternatives to reliably serve such demand. Accounting for unique national circumstances, all WBG investments in new gas infrastructure will be assessed for consistency with Nationally Determined Contributions, Long-Term Strategies or other national development strategies—and ensure they are not leading to long-term carbon lock-in.

At MIGA, and across the WBG, we are committed to developing frameworks, assessment tools and metrics that will help operationalize alignment with the Paris Agreement. These frameworks will include guidance at the sector level to help MIGA's clients and client countries to determine alignment of an operation. We believe that through these efforts, MIGA will support its overarching goal of mainstreaming climate throughout all development activities.

## Country Climate and Development Reports: A new diagnostic for Integrating climate change and development considerations

The WBG recently launched a new core diagnostic tool, Country Climate and Development Reports (CCDRs). A product of the World Bank, IFC and MIGA, the reports are prepared in close coordination with the International Monetary Fund. They aim to help countries prioritize the most impactful actions to boost resilience and adaptation and reduce GHG emissions, while delivering on broader development objectives.

As public documents, CCDRs can generate engagement at the country level from governments, private sector investors, citizens and development partners to advance the climate and development agenda. CCDRs support coordinated, country level climate action, and can help direct concessional and private financing to high-impact climate activities.

A key finding of the initial group of CCDRs launched at COP27 (see Climate and Development: An Agenda for Action) is that climate objectives can be achieved without compromising development. The CCDRs identify country-specific resilient and low-carbon development pathways that are consistent with development goals as well as domestic and global climate objectives. Most of the CCDRs find that climate adaptation and mitigation do not create major trade-offs with overall economic growth, and can often provide upsides to economic growth. However, this outcome is possible only if climate actions are well designed, with the right enabling environment and participation of the private sector.

Structural change and supportive policy environments are needed for successful and just climate action. Reforms that tackle underlying structural obstacles for growth and development, including barriers to private

sector participation, are imperative to facilitate countries' response to climate change. The analysis from the CCDRs finds that the private sector has a key role to play in boosting adaptation and mitigation, but enabling conditions and targeted support are needed for the private sector to reach its full potential.

Resilient and low-carbon pathways can have positive economic impacts, but they will depend on an enabling environment that:

- opens access to finance and mobilization of private capital;
- addresses political economy obstacles;
- improves low institutional capacity;
- enables diffusion of new technologies; and
- addresses potential negative outcomes.

Therefore, countries will require carefully designed policies and reforms, strict prioritization, and sequencing and scaled-up financing from the advanced economies, including from the foreign private sector.

Boosting resilience and adaptation is an urgent and integral part of development and poverty reduction, especially in low-income countries. It is even more important in countries impacted by fragility and conflict, which can be major magnifiers of future climate impacts, as they reduce people's ability to prepare and respond.

Greater resilience can be achieved through a combination of:

- rapid and inclusive development, especially universal access to infrastructure and social services;
- a whole-of-society approach to resilience and adaptation, to ensure climate risks are considered in all decisions and investments; and
- targeted sectoral interventions covering human capital, infrastructure and other economic sectors.

Even with adaptation, successful development and poverty reduction are dependent on accelerated mitigation actions, especially from high-income countries and large emitters. Decarbonizing economies requires resources for investment and support for affected people, which are more easily available in the context of rapid economic growth, strong governance, sound budget management and procurement, and access to robust financing and global capital markets.

All countries have an enormous opportunity to expand renewable energy to meet growing demand for electricity, improve energy security and reduce emissions in the energy sector. Realizing the potential of renewable energy will, however, require:

- coordinated efforts to strengthen electric utilities by making large investments in the grid;
- achieving flexibility in energy supply/demand; and
- substantially increasing electricity storage.

For countries with energy-access deficits, universal access to electricity is a development priority that can be compatible with low-emissions development, as well as providing health benefits.

CCDRs have also found that decarbonization will depend on realizing the opportunities in transport, buildings and industries from electrification and energy efficiency. This includes the electrification of energy end-use in each of these areas, which is an essential tool to harmonize climate and development objectives. Improving industrial energy efficiency contributes to decarbonization while increasing productivity and strengthening export competitiveness.

Similarly, a modal shift away from road-based vehicle transport through multi-modality (for passengers) and inter-modality (for freight) is the primary win-win for development and climate. Improving fuel efficiency and electrifying vehicles are also crucial.

As cities grow, integrated spatial planning to ensure that the growth is compact and resource-efficient will help avoid locking in low-density, costly and emissions-intensive sprawl. CCDRs also identify opportunities in land use, forestry, agriculture and water. In addition to enhancing the role of forests as carbon sinks and potential offsets for GHG emissions from other sectors, actions to protect and restore forests bring multiple additional economic benefits. Smart-agricultural practices also play a critical role in reducing emissions and meeting climate goals.

Global markets increasingly demand greener and lower-carbon content products; this transition creates major opportunities to grow and export in support of green value chains for countries at all income levels. Countries endowed with the minerals required for green technologies also could see windfall gains.

Success requires urgent policy reforms, in particular to crowd in the private sector, as well as substantial financing from the international community. Low and lower-middle income countries will need relatively larger upfront investments compared with upper-middle income countries to close infrastructure gaps. Despite the need for large upfront investments, resilient and low-carbon pathways generate benefits that partially or completely offset the investment needs.

**The development of green value chains provides economic upsides, while contributing to country-level climate ambitions.**

Financing is needed not just for investments but also for social expenditures that are necessary to help offset the distributional impacts of the climate transition.

**Success requires urgent policy reforms, in particular to crowd in the private sector.**

Financing falls into three main categories.

- First, investments with high financial returns can be financed by the private sector with the right enabling environment;
- Second, other investments, while economically attractive, have financial returns that are insufficient to attract private finance. In such cases, policies, regulations or market design can create additional financial flows. Private capital can also contribute to these investments if the risk-return profile is improved through domestic or global subsidies—for example, through blended finance or de-risking tools and guarantees or use of carbon markets.
- Third, spending needs such as transfers or compensation may have no financial returns, even when they yield large socioeconomic benefits such as facilitating communities' transition away from coal. Such spending will have to be carried out by the public sector and development partners.

But even where such support is available, the recommended actions in many of the CCDRs may exceed resources, especially in low-income environments. As a result, governments face the challenge of prioritizing the proposed interventions. Establishing enabling conditions for the private sector to contribute to climate finance therefore is of critical importance.

# Energy Transition and Universal Access

Sustainable Development Goal (SDG) 7 calls for universal access to affordable, reliable, sustainable and modern energy by 2030. Energy is what, literally, fuels development. It enables the technological advances and new businesses that are the generators of jobs, sustainable and inclusive growth, and poverty reduction and shared prosperity for all.

As of 2022, however, around 733 million people still lack everyday access to electricity, and about 2.6 billion are forced to cook or heat their homes with dirty fuels that are harmful to the environment and to their health. These risks have been magnified tremendously by one of the largest series of shocks to global energy markets in decades. The combination of COVID-19, rising inflation and the war in Ukraine has led to spiraling energy prices, which have exacerbated fuel shortages and heightened fears around energy security issues, seriously setting back the achievement of SDG 7. The latest projection from the World Bank and partner groups tracking the energy transition is that 670 million people will still be without electricity in 2030 —10 million more than had been projected the previous year.

Developing countries that import energy are especially vulnerable to high energy prices, as they typically have limited tools for mitigating price hikes. The result is that living standards are often compromised, especially among the poorest segments of society. The World Bank estimates that almost 90 million people in Africa and Asia can no longer afford to pay for electricity to which they had gained access. Their situation has been made worse by the impact of higher energy prices across the food production and distribution supply chain. The combination of rising food and fuel prices has hurt all income groups, but the poorest typically are least able to weather price shocks, especially to basic items.

The development of renewable energy has been a notable success story for developing countries, providing clean, affordable and secure energy supplies. Not only can renewable energy reduce GHG emissions, it is also cost competitive. The price of electricity generated by modern solar mini-grids fell from $0.55/kWh in 2018 to $0.38/kWh in 2022, while hydropower is one of the lowest-cost sources of electricity for consumers. Solar and wind are abundant in many parts of the developing world, and advances in battery storage technology are allowing for greater reliance than ever before on these sources. Hydropower also remains an essential source of electricity in many developing countries, in part because of its low cost.

**"Universal access to electricity driven by clean, renewable energy remains a core development objective."**

Ethiopis Tafara, Vice President and Chief Risk, Legal and Sustainability Officer and Partnerships

Modern solar mini-grids are a particularly important source of power. Mini-grids are off-grid systems that generate small amounts of electricity. They serve a limited number of consumers using distribution systems that can operate independently of national electricity networks. Mini-grids provide low-cost power for electrical equipment that can save lives, including by powering medical technologies in healthcare facilities and pumping clean water in rural communities. Mini-grids, though, are about more than access to power: linking 490 million people to solar mini-grids could cut 1.2 billion tons of CO2 emissions.[2]

Converting to renewable energy sources from fossil fuels is essential to tackling climate change, but will require significant investment, especially as energy consumption is responsible for around 75 percent of GHG emissions. Investment in clean energy has increased in recent years , but remains at around 2015 levels for many low-and-middle-income countries. Climate finance flows covering all sectors to developing countries need to quadruple from less than $425 billion annually in 2020 to $1.7 trillion by 2030.[3] Specifically, these investments will need to be targeted at solar and onshore and offshore wind projects. Yet, many developing countries have neither the budgetary capacity nor the ready access to financial markets to make investments in renewable energy affordable. Macroeconomic conditions and political risk can also dissuade private-sector firms from investing in renewable energy, although MIGA's political-risk insurance coverage can be particularly helpful to mitigate these risks for cross-border investors.

[2] Solar Mini Grids Could Power Half a Billion People by 2030 – if Action is Taken Now, World Bank, 2022.
[3] Climate and Development Brief. Scaling Climate Finance to Lower Emissions in the Power Sector, World Bank Group, 2022.

# Adaptation and Resilience: A priority for development and smart investment

Climate change, more and more, is forcing a reconsideration of the priorities for achieving the World Bank Group's Twin Goals as well as for the SDGs. Adaptation and building resilience to the effects of climate change are becoming key areas of focus for governments, private sector investors and MDBs. At the WBG, we believe that proactive measures, such as reducing and managing climate risks, can help protect development ambitions.

Six principles of climate change adaptation help to organize the requisite steps:

- Ensure development is rapid and inclusive and offers protection against shocks;
- Facilitate the adaptation of firms and people;
- Adapt land use and protect critical public assets and services;
- Help firms and people cope with and recover from disasters and shocks;
- Anticipate and manage macroeconomic and fiscal risks; and
- Prioritize, implement and monitor interventions.

When prioritized according to a country's specific context, including high-level objectives and risks, these principles and corresponding actions can help decrease, mitigate and manage climate risks.[4]

Adaptation to climate change and building resilience to its effects are key areas for the WBG as we seek to improve development outcomes in client countries.

Both the development and business cases for addressing climate change in MIGA's operations are clear. From a development perspective, climate change and disaster impacts disproportionately affect the poorest and most vulnerable populations, especially in low- and middle-income countries. At the same time, investing in climate resilience presents an enormous economic opportunity for businesses: On average, $1 invested in resilient infrastructure yields $4 of benefits, with total net benefits of $4.2 trillion over the lifetime of new infrastructure assets in low- and middle-income countries.[5] In private sector operations, MIGA is working with clients to protect investments from current and future climate risks that impact supply chains and operations and that increase capital costs. A well-designed, resilient project not only protects assets, incomes, lives and livelihoods, but also guarantees that the developmental impact from such projects is sustained and enhanced.

MIGA is committed to supporting clients in building climate-resilient pathways in key sectors, including public and private infrastructure, by using cutting edge analytics and planning tools. By mobilizing private finance, MIGA drives greater investment in resilience and adaptation. MIGA, along with World Bank partners, is also working with the *Insurance Development Forum*, a public-private partnership, to extend the use of insurance and related risk management capabilities to build greater resilience. This will help vulnerable countries access financial markets and secure additional risk capital against climate shocks.

MIGA has an increasing portfolio of projects where it has worked with clients to foster adaptation and resilience. In doing so, MIGA's efforts, and those across the WBG, are serving as a catalyst for scaling up and mainstreaming these interventions so they can have a material impact on reducing vulnerabilities. One measure of success will be to transform these best practices into a "new normal," applied in all countries for all relevant decisions and investments.

[4] The Adaptation Principles A Guide for Designing Strategies for Climate Change Adaptation and Resilience, Stephane Hallegatte Jun Rentschler Julie Rozenberg, World Bank Group, 2020.
[5] COP26 Climate Brief Adaptation and Resilience: A Priority for Development and Poverty Reduction, World Bank Group, 2021.

## Opportunities and Benefits of Private Sector Investment in Adaptation

| Opportunity Type | Benefits |
|---|---|
| *Development and distribution of new products and services* | • New revenue streams<br>• Gain competitive advantage<br>• Diversify risk portfolio |
| *New, expanded markets for products and services* | • New revenue streams<br>• Increased market share<br>• Long-term viability or success of business |
| *Cost savings* | • Reduced raw material and operational costs<br>• Protects profitability when margins are tight<br>• Improved insurance purchasing and lower residual losses |
| *Collaboration through supply chain* | • Competitive advantage gained through a more secure and resilient supply chain<br>• Security of supply protects revenue streams |
| *Reputation and brand value* | • Market leadership<br>• Increased confidence among investors, consumers, and other stakeholders |

Source: Enabling Private Investment In Climate Adaptation & Resilience, World Bank Group and the Global Facility for Disaster Reduction and Recovery (GFDRR), 2021.

**A well-designed, resilient project not only protects assets, incomes, lives and livelihoods, but also guarantees that the developmental impact from such projects is sustained and enhanced.**

# Climate Risk and Political Risk Insurance Ratings

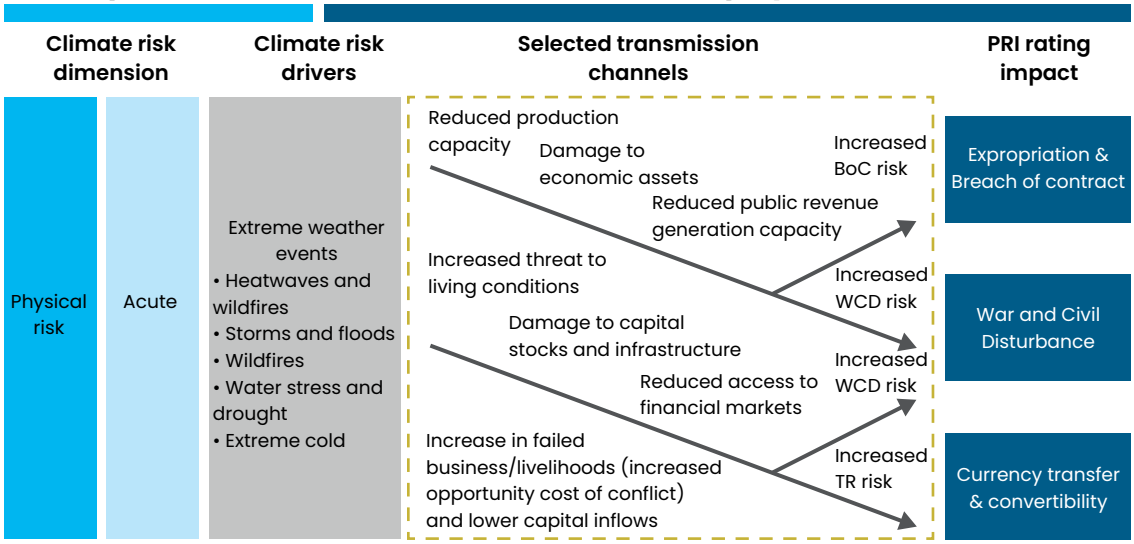
MIGA is exploring the effects of climate risks on political risk insurance ratings. Our research has indicated that the growing impact of both physical climate risks and of the consequences of the transition to low-carbon economies affect political risk through several transmission channels, including macroeconomic, financial, societal and distributional.

It is important to understand the impact of climate risks at both the whole-of-economy level as well as at the local, regional and distributional level in the context of analyzing political risks. Drawing on a substantial body of academic literature in this field, MIGA has identified a range of climate risks and how they could potentially affect the different political risks specific to each country for which MIGA assigns ratings.

Using a range of indicators, MIGA has conducted an in-depth correlation analysis to better understand and reflect the impact of climate risks and how they are likely to influence political risk insurance ratings. The risks relate to both acute and chronic physical risks. The risks are also linked to the transition to a low-carbon economy, such as policy and legal shifts, as well as market and technology changes. As part of this correlation analysis, MIGA has tested for the interaction with, and correlation to, non-climate risk indicators to ascertain an adequate weighting of these climate-risk indicators in the overall risk assessment process. MIGA has also considered under which country conditions such impacts are partially mitigated or amplified.

The impact of climate risks on political risk ratings can, for example, be amplified by low levels of economic, social or institutional resilience. In other words, the higher the levels of economic, institutional and social fragility in a given country, the stronger the likelihood that elevated levels of climate risk exposure will result in a high impact on political risk ratings for these countries. Having identified specific climate risk drivers and their respective transmission channels, MIGA is now in the process of systematically integrating these findings into its internal political risk rating process.

## Example of transmission channel: acute physical risks




MIGA assigns MIGA-internal country-specific political risk insurance ratings across several risk categories. These non-commercial risks include: i) the risk of financial transfer restrictions and currency inconvertibility; ii) the risk of expropriation; (iii) the risk of breach of contract, and (iv) the risk of war and civil disturbance. As these ratings are used for financial decision making at MIGA, including calculating the capital that MIGA holds against its risks and for pricing, the reliability of these ratings is critical to MIGA's financial sustainability.

## MIGA's Task Force on Climate-Related Financial Disclosures Report

MIGA presents in this report its second annual release under the Task Force on Climate-Related Financial Disclosures (TCFD). The first disclosure appeared in MIGA's fiscal year 2021 Annual Report and was also presented in MIGA's first Sustainability Report covering FY21. Our first TCFD disclosure coincided closely with the adoption in June 2021 of the second World Bank Group (WBG) *Climate Change Action Plan 2021-2025*, which is shaping the organization's climate activities for the five-year period of the plan. This second TCFD disclosure affirms MIGA's commitment to put climate at the heart of everything the organization does, and builds on the policies, processes and resources discussed in our first TCFD report.

The Financial Stability Board created the TCFD to develop recommendations for more effective climate-related disclosures. The goal is to encourage better informed financial decisions when considering investments in carbon-related assets and exposures to climate-related risks.

The TCFD is of the view that climate change represents both risks and opportunities, and that the financial community needs to have a clear view of how companies will be impacted, either positively or negatively, by the increasing variability and intensity of climate change. To make an appropriate assessment, reliable, climate-related information is critical to support the pricing of climate-related activities. The TCFD believes that as better climate-related information is available, markets will channel investments to sustainable and resilient solutions.

As part of MIGA's efforts under the WBG's Climate Change Action Plan, MIGA started on a journey to adopt the disclosure recommendations of the TCFD. The TCFD's guidelines on climate-related financial disclosure are structured around four core elements: governance, strategy, risk management, and metrics and targets. MIGA's TCFD reports take these elements as their organizing principle. The reports are an effort to communicate MIGA's climate strategy and procedures more effectively, and to identify potential climate-related risks and opportunities.

Our second TCFD report is enhanced from last year's report, but should continue to be viewed as an initial effort by MIGA to meet disclosure requirements. MIGA's climate change management structures, policies and procedures are currently evolving and undergoing enhancements to meet the ambition of the WBG's new Climate Change Action Plan. The report reflects MIGA's continued commitment to maintaining and strengthening our climate-related disclosures across all four core TCFD pillars.

# Leading the Way on Environmental and Social Sustainability and Inclusion in MIGA Projects and Policies

Environmental and Social (E&S) sustainability is a cornerstone of our approach to working with clients, and is a key component of green, resilient and inclusive development. E&S sustainability is also important for overall risk management. MIGA works to achieve E&S sustainability in our projects through the application of our Sustainability Framework, which includes our *Policy on Environmental and Social Sustainability*, a broad set of *Performance Standards on Environmental and Social Sustainability* (see box), and our *Access to Information Policy*. Our Sustainability Policy emphasizes our prioritization of cross-cutting issues such as low carbon growth, human rights, corporate governance, gender, ecosystem services and others. MIGA's Access to Information Policy embodies our commitment to transparency and good governance in its operations and outlines MIGA's institutional disclosure obligations. MIGA's E&S policies and approaches are widely considered to be the market standard and are also applied by other development finance institutions (DFIs), commercial financial institutions and corporations.

## Environmental and Social Standards

MIGA's Environmental and Social (E&S) standards constitute a critical aspect of our value proposition for clients. MIGA's Sustainability Framework seeks to manage E&S risks through application of a mitigation hierarchy, which requires our clients to:

- anticipate and avoid adverse impacts;
- minimize and mitigate adverse impacts where avoidance is not possible; and
- compensate or offset any residual impact.

FY22 was a year of continued growth and strengthening of MIGA's work on E&S sustainability. With the world re-opening after two years of COVID-19 travel restrictions, MIGA's E&S specialists began undertaking site visits again, both for new project appraisals and for monitoring existing projects. Re-engaging with clients on the ground renewed our appreciation for the importance of site visits for risk identification and management, as well as building relationships with our clients that enhance our ability to strengthen the E&S performance of the projects MIGA supports. At the same time, the agile approaches and efficiencies established during the COVID-19 period, such as virtual meetings and leveraging local specialists, continue to be strategically deployed to maximize our impact.

In FY22 we also continued to deliver on our commitment to enhance E&S accountability by strengthening the overall approach to E&S risk management. This included continued implementation of the Independent Accountability Mechanism Policy, which was approved at the end of FY21. In addition, increased E&S resources and enhanced focus on portfolio management allowed MIGA to boost its E&S value-add to clients throughout the guarantee period.

MIGA recognizes that the World Bank Group's (WBG) Twin Goals of ending extreme poverty and boosting shared prosperity *in a sustainable manner* cannot be met—and no country, community or economy can achieve its potential—without full participation of all community members. In FY22 MIGA continued to deliver on its commitment to advancing gender equality through its first Gender Strategy Implementation Plan (GSIP). The GSIP leverages MIGA's unique role as a provider of political risk insurance and credit enhancements to the private sector.

# Creating value in MIGA-supported guarantee operations through E&S engagement

## Enhancing E&S management systems to deliver sustainable projects

### SUPPORTING RESILIENCE AND SAFETY OF ROAD INFRASTRUCTURE IN SERBIA

The Morava Corridor Motorway (see photo) is critical to **Serbia's** transport infrastructure and the economic development of the Morava River Valley. It will link central Serbia to the Pan-European Corridors that run north and south to Austria and Greece (Corridors X and X1) and is essential to connecting the industrial city of Kruševac with the important regional commercial centers of Sarajevo in Bosnia and Herzegovina, and the port city of Bar in Montenegro. A MIGA guarantee mobilized commercial finance to support the development of the project.

MIGA worked closely with Koridori Srbije d.o.o. Beograd (Corridors of Serbia), which is overseeing the construction phase of the motorway, and the Engineering Procurement and Construction (EPC) contractor to align the project with MIGA's Performance Standards. This included requiring Corridors of Serbia and the EPC contractor to conduct additional assessments related to biodiversity, ecosystem services, cultural heritage and a climate change risk assessment. The results of these assessments were incorporated into the detailed design of the road and river regulation works, as the motorway is being built along the Morava River's flood plain.

This work was also used to inform the development of E&S management plans, which are aligned to good international industry practice. Corridors of Serbia, with the support of MIGA, developed an Environmental and Social Management System (ESMS) to guide implementation of the project in line with MIGA's Performance Standards. During project implementation, MIGA is continuing to engage with Corridors of Serbia and the EPC contractor to support sound management of E&S risks.

> **"Climate and E&S performance standards, underpinned by MIGA's due diligence and monitoring, can combine to redefine what it means for a project to be truly sustainable."**
>
> Ethiopis Tafara, MIGA Vice President

The current road infrastructure in the region is based on a 100-year maximum flood protection event level that was exceeded in the catastrophic 2014 flood, the largest on record in the area. As a result, in addition to road construction, the project includes river regulation works along the West Morava River to protect the motorway from flooding. The flood mitigation measures will also provide some protection to buildings and assets in the valley, stabilize the river route and minimize erosion of the riverbanks.


### ENHANCING E&S MANAGEMENT IN SIERRA LEONE TELECOMMUNICATIONS INFRASTRUCTURE

Modernizing and expanding telecommunications infrastructure and services in Sierra Leone is critical to poverty reduction and economic growth. MIGA has been supporting an equity investment into a local mobile operator by a regional telecoms company to enhance the expansion and improvement of mobile telephony and broadband infrastructure in the country.

At the time of MIGA's initial assessment of the project to determine its support, MIGA concluded that the project enterprise did not have an ESMS in place to manage

E&S risks, and only limited capacity to develop and implement a system in line with MIGA's requirements, as provided in its Performance Standards. Addressing the risks was a key component of the Environmental and Social Action Plan (ESAP) that was agreed with the project enterprise, and it was included as part of the contract of guarantee that the investor in the company in Sierra Leone and MIGA's guarantee holder signed with MIGA.

Despite initial efforts by the project enterprise to prepare an ESMS aligned with MIGA's Performance Standards, it was determined during monitoring that additional support and capacity building were needed. The MIGA team therefore engaged extensively with the project enterprise to develop an ESMS and improve the project's overall E&S performance. The support provided by the MIGA E&S team included:

- in-depth consultations with the guarantee holder and the project enterprise's Health, Safety and Environment team to review its policies and procedures and discuss the upgrades needed to meet MIGA's E&S Performance Standard requirements;
- training of the staff of the project enterprise on MIGA's Performance Standards;
- guidance on the ESMS and related plans and procedures; and
- a monitoring site visit to meet with the Health, Safety and Environment team and assess E&S performance and ESMS implementation, following the lifting of COVID-19 travel restrictions.

As a result of MIGA's support and engagement with MIGA's guarantee holder and the project enterprise's Health, Safety, and Environment team, the project in 2022 achieved compliance with MIGA's E&S Performance Standards, a significant and very welcome achievement. The guarantee holder has also demonstrated increased capacity and understanding of E&S risk management practices at the corporate level, which is being shared with other subsidiaries of the company in the region.

## Partnering for the benefit of clients and the environment

### MDB COLLABORATION IN SUPPORT OF SUSTAINABILITY IN COLOMBIA

With the scale and complexity of today's development challenges, the need for private sector capital is greater than ever. Building on previous cooperation in Colombia's port sector between MIGA, IDB Invest (the private-sector arm of the Inter-American Development Bank Group) and Financiera de Desarrollo Nacional (FDN, Colombia's infrastructure development bank), MIGA issued a guarantee in January 2022 to JPMorgan Chase. The guarantee covered a loan to be on-lent for the construction and operation of a new, privately managed port in the Gulf of Urabá in the northern part of Antioquia, Colombia—Puerto Antioquia de Urabá. The project, which is also supported by IDB Invest and local banks in Colombia, is located near the country's main production and consumption centers, and will also facilitate access to international markets for farmers in the Antioquia region, which is responsible for 75 percent of Colombia's banana production. The project will also create jobs and provide economic alternatives for people in the region, supporting Colombia's efforts to prolong stability in an area once affected by conflict.


Throughout the E&S review process, MIGA worked closely with IDB Invest and FDN to promote good international practices. An E&S Action Plan was developed to bring the project into compliance with MIGA's Performance Standards. Given the complexity of the project, MIGA, IDB Invest and FDN worked extensively with the project sponsor as they carried out supplemental E&S studies and developed the required E&S management plans. As a result, with construction of the port commencing, the project is now in a position to implement E&S management in line with the requirements of the Performance Standards. MIGA, IDB Invest and FDN will work together to monitor the E&S performance of the construction and operational phases.

This project demonstrates how collaboration between the development community and the private sector, along with harmonized E&S standards and shared due diligence, can enhance a project's ability to meet international E&S performance standards.

## MIGA PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL (E&S) SUSTAINABILITY

### Performance Standard 1:
ASSESSMENT AND MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS AND IMPACTS

Underscores the importance of identifying E&S risks and impacts, and managing E&S performance throughout the life of a project.


### Performance Standard 2:
LABOR AND WORKING CONDITIONS

Recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection of basic rights for workers.


### Performance Standard 3:
RESOURCE EFFICIENCY AND POLLUTION PREVENTION

Recognizes that increased industrial activity and urbanization often generate higher levels of air, water, and land pollution and that there are efficiency opportunities.


### Performance Standard 4:
COMMUNITY HEALTH, SAFETY AND SECURITY

Recognizes that projects can bring benefits to communities, but can also increase potential exposure to risks and impacts from incidents, structural failures, and hazardous materials.


### Performance Standard 5:
LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT

Applies to physical or economic displacement resulting from land transactions such as expropriation or negotiated settlements.


### Performance Standard 6:
BIODIVERSITY CONSERVATION AND SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES

Promotes the protection of biodiversity and the sustainable management and use of natural resources.


### Performance Standard 7:
INDIGENOUS PEOPLES

Aims to ensure that the development process fosters full respect for Indigenous Peoples.


### Performance Standard 8:
CULTURAL HERITAGE

Aims to protect cultural heritage from adverse impacts of project activities and support its preservation.


## WHAT ARE THE BENEFITS OF THE PERFORMANCE STANDARDS (PSs)

CREATE VALUE FOR BUSINESS

Sustainability has become an important factor in business strategies. Many companies recognize that by addressing E&S issues they can save on costs, improve their brand and reputation, and strengthen stakeholder relations.

REALIZE OPPORTUNITIES AND GUARD AGAINST UNFORESEEN RISKS

Implementing the PSs helps companies identify and guard against interruptions in project execution, brand protection, and/or accessing international markets.

IMPROVE FINANCIAL AND OPERATIONAL PERFORMANCE

Implementation of the PSs can help optimize inputs such as water and energy, and minimize emissions, effluents, and waste, leading to a more efficient and cost-effective operation.

SOCIAL LICENSE TO OPERATE

The PSs help clients maximize local development benefits and encourage the practice of good corporate citizenship. Enhanced brand value and reputation may also be attractive to new investors or financiers.

GAIN AN INTERNATIONAL STAMP OF APPROVAL

The "Equator Principles," which have been adopted by over 130 of the world's leading financial institutions in developed and developing countries, are based on the PSs. These principles are estimated to cover over 70% of project finance debt in emerging markets..

# Strengthening E&S accountability to better serve our partners, clients and communities

Environmental and social accountability remains a strong pillar of MIGA's commitment to sustainability. The report of an independent External Review Panel, *"External Review of IFC/MIGA E&S Accountability, including CAO's Role and Effectiveness,"* released in August 2020, provided recommendations to strengthen IFC and MIGA's accountability.

The responses to the recommendations were clustered into three areas:

- Development of a new policy pertaining to MIGA and IFC's Independent Accountability Mechanism, the Compliance Advisory Ombudsman (CAO);
- Actions MIGA and IFC should take to strengthen their own E&S accountability processes; and
- A potential approach to enabling remedial actions for stakeholders negatively impacted by MIGA and IFC projects.

At the very end of FY21, MIGA and IFC's Boards approved the first policy in the history of the institutions governing the activities of the CAO. FY22 saw the roll-out of this new policy, which reinforces CAO's independence from MIGA and IFC management and strengthens the role of the IFC and MIGA Boards in the CAO process as the CAO, under the new policy, reports directly to the Boards of IFC and MIGA.

Following this landmark achievement, MIGA has intensified efforts to complete the recommendations comprised in the second element by strengthening the systems, processes, capacity and tools underpinning efficient E&S risk management. New E&S review procedures for due diligence and monitoring have been drafted, and these will be finalized and rolled out in FY23. MIGA has also worked closely with IFC on the development of guidance notes, tip sheets and good practice notes related to emerging E&S risks. Once finalized, the implementation of these new guidance materials will be accompanied by a program of training, capacity-building and knowledge-sharing activities.

Related to the third workstream, MIGA continues to work toward enhancing access to remedies by strengthening options available to affected communities. In FY22 we began a portfolio review of project-level grievance mechanisms, which will be used to develop improved guidance and training materials for clients and staff. MIGA has also established an internal stakeholder grievance response function and is in the process of developing related systems, guidance documents and trainings for this new function.

MIGA also has worked closely with IFC to develop an approach to remedial action. A paper, *"IFC/MIGA Approach to Remedial Action,"* puts forward a plan that leverages and enhances the existing processes and systems of the Sustainability Framework to facilitate and support remedial actions to address adverse E&S impacts in our projects. The paper will undergo a formal consultation process, expected in the third quarter of FY23, with a wide range of stakeholders to provide input into the approach. A final paper will be submitted to the Board for consideration after the consultation.

# MIGA is helping to bridge the gender gap

## Gender and the Private Sector

The private sector has a critical role to play in narrowing gender gaps, given its ability to mobilize capital and create jobs and economic opportunities. In nearly all measures of economic opportunity, women lag behind their male counterparts, and the COVID-19 pandemic has exacerbated many of the challenges that women face. Globally, female labor force participation declined to just over 46 percent in 2021, compared with nearly 72 percent for men, limiting economic growth and increases in household incomes. MIGA's support of projects can help to bridge the gender gap, as illustrated by these two project examples.

### SUPPORTING WOMEN-OWNED SMEs IN CAMBODIA

MIGA supported the National Bank of Canada's (NBC) subsidiary, ABA Bank in **Cambodia**, through MIGA's capital optimization product. ABA intends to use the lending capacity enabled as a result of the MIGA guarantee to support new lending, of which 75 percent is targeting women-owned small- and medium-sized enterprises. This was one of the first projects under MIGA's new Gender Flag approach, which identifies intentional actions in MIGA-supported projects that help to narrow gender gaps, and is the first in a low-middle income country.

### ENHANCING FINANCING OPPORTUNITIES FOR WOMEN-OWNED SMEs IN PARAGUAY

MIGA also provided a guarantee in FY22 in support of Agencia Financiera de Desarrollo (AFD), a state-owned bank in **Paraguay**, to help the institution address the needs of small businesses, including women-owned enterprises, and the housing sector, two key areas for enhancing shared prosperity in Paraguay's economy. The project, under MIGA's Gender Flag approach, incorporates a Gender Action Plan that comprises the development of new products or services targeted at women retail clients or women-owned micro- and small- and medium-sized enterprises. In addition, AFD will undertake training to enable gender capacity building and raise organizational gender awareness of financial inclusion for women, while supporting the transfer of gender knowledge among AFD client institutions.

**"MIGA is deepening its engagement with financial institutions to support increased lending to women-owned businesses."**

Hiroshi Matano, EVP, MIGA

### MIGA's GENDER STRATEGY IMPLEMENTATION PLAN (GSIP)

MIGA has made gender a priority in its overall strategy. In FY21 MIGA launched its first GSIP, reinforcing its commitment to integrate gender throughout MIGA's business. The GSIP identifies opportunities for increased gender actions aligned with three strategic pillars: **corporate, client engagement** and **partnerships.**

Under the **corporate pillar**, in FY22 MIGA focused on building staff knowledge and skills through a training program on gender-based violence (GBV), gender in private sector operations, and gender and climate change. MIGA also continued to work on increasing gender parity and equality at MIGA as part of its diversity, equity and inclusion (DE&I) efforts. In FY22 all staff were invited to participate in small group discussions on DE&I, offering a platform for transparent and open discussion. MIGA, as part of the WBG, achieved Gender EDGE Level 2 Certification.

Under the **client engagement pillar,** MIGA further intensified its efforts to work with its clients on gender—specifically on identifying and managing GBV risks—by developing guidance and implementing tools for GBV risk management. In addition, MIGA implemented the **Gender Flag approach**, which identifies projects that commit to intentional actions to narrow gender gaps. MIGA's goal is to support clients' implementation of high-quality, effective gender actions on projects.

Under the **partnerships pillar,** MIGA strengthened its close collaboration with IFC and the World Bank on gender issues, benefiting from their expertise and leveraging lessons and good practices from their rich experience in supporting gender work in both the public and private sectors. In addition, MIGA became a founding member of the 2X Collaborative, a global industry body that convenes the entire spectrum of investors to promote gender-focused investments.

## Incorporating sustainability and inclusion in MIGA's development impact framework

MIGA facilitates foreign investment into developing countries to help support economic growth and macroeconomic stability. Our goal is to reduce poverty and to improve people's lives through beneficial impacts on consumers, employees, suppliers and communities.

MIGA's guarantees enable private-sector investors to commit capital to impactful projects on a long-term basis, despite real and perceived non-commercial risks to their project investments. MIGA-supported projects can also have significant demonstration effects that can encourage other investors to commit capital to investments in markets in which MIGA is active.

MIGA has developed an ex-ante development impact framework to provide a structured methodology for assessing and communicating the potential development impact of proposed MIGA-supported projects (called *"Impact Measurement and Project Assessment Comparison Tool"*, or *"IMPACT"*). Launched in FY2018, the IMPACT framework is designed to:

- inform project prioritization;
- compare the expected development impact across MIGA's portfolio of projects, and

- standardize communications to stakeholders.

The framework endeavors to systematically analyze the expected development impact of MIGA-supported projects and is tailored to the varying development impact outcomes across multiple sectors. It focuses on:

- the project's direct benefits to stakeholders and the direct benefits from an environmental and social perspective (including any climate benefits); and
- wider, beyond-the-project benefits for the foreign investment environment (called Foreign Investment Effects). These wider benefits might include, for example, demonstration effects that could entice other investors to enter a certain sector or market.

## Deepening our Commitment to Enhance Sustainability: The Fund for Advancing Sustainability

### What is the Fund for Advancing Sustainability Trust Fund (FASTF)

Established in January 2022, the FASTF's goal is to enhance the development impacts of MIGA projects and mitigate their risks by delivering direct technical assistance through third-party service providers, and through technical assistance grants. FASTF is funded by contributions from the Republic of Korea.

### What does it do?

Depending upon the nature of the activity, MIGA can either utilize FASTF to provide direct technical assistance and capacity building through third-party service providers, or issue grants to recipients to enable them to undertake the technical activities themselves. FASTF provides solutions in the following areas:

- *Environmental and social aspects, and "Performance Standards" compliance*

During the underwriting process, MIGA identifies the environmental and social policies and requirements that are applicable to a project. The FASTF can be deployed to promote adherence to these requirements through the provision of technical assistance, capacity building and grants.

- *Enabling gender-related risk mitigation and scaling opportunities to close gender gaps*

The FASTF can be used to provide support for the closing of gaps identified by any gender gap assessments, and in developing mitigation measures to prevent and respond to gender-based violence (GBV) risks. Some examples of support include: (a) assessment of client operations and support for interventions safeguarding against risks of sexual harassment, sexual exploitation, abuse and violence; and (b) supporting women-owned businesses, promoting decision-making and empowerment for women through livelihoods and health, expanding employment opportunities for women in the project, and increasing access to goods, services and contracts for women.

- *Enhancing corporate governance and legal capacity building*

The FASTF can be used to provide support for enhancing corporate governance, integrity reporting, financial management and credit worthiness, transparency and accountability, and legal capacity building in project stakeholders.

- *Expanding and executing initiatives for climate adaptation, resilience and benefits*

FASTF can be deployed to provide support to clearly delineate climate benefits as well as identify and mitigate any climate risks in relation to existing or potential MIGA projects.

- *Enhancing management expertise to operate in fragile environments*

The FASTF may be deployed to support clients and stakeholders in enhancing their management expertise to operate in fragile environments by addressing their unique context and issues.

### How is it used?

The use of FASTF, and the modalities of its use (i.e., direct technical assistance and capacity building, or grants to clients and project stakeholders) will be mutually agreed between MIGA and its client and/or the entity receiving the support. MIGA may use the FASTF to support projects that are in the process of underwriting and those that are already a part of its portfolio.

## Achieving Our Environmental and Social Standards

MIGA, in partnership with the Independent Evaluation Group of the World Bank Group, regularly evaluates the environmental and social performance of our projects. In FY22 we achieved a MIGA record-high E&S success rate: 88 percent of the projects evaluated during the FY16-FY21 period were rated satisfactory or better against MIGA's environmental and social requirements.

While this is a notable achievement, we are committed to further strengthening our performance, especially by enhancing our monitoring function. In FY22 we further prioritized resources to strengthen our support for E&S risk management with our clients throughout the entire life of a MIGA guarantee.

In assessing the development impact of a potential project, the framework considers both the outcomes that the project in question is expected to deliver as well as the country and local context that the project will be operating in. This ensures that the gap the project is expected to address—for example, low levels of access to electricity—will be taken into account in the overall development impact assessment.

The overall IMPACT score considers the maximum potential a project can achieve in each of the direct Project Outcome and Foreign Investment Effects dimensions, but it adjusts that potential to reflect the likelihood of the project actually achieving the desired results. The likelihood adjustments assess the risks to realizing the potential development impact on each dimension.

Over the course of FY22, MIGA continued to upgrade the IMPACT framework. Enhancements have been introduced to more accurately assess both the project-specific outcomes and the demonstration effects related to environmental, social, gender and climate outcomes. In particular, MIGA has introduced more explicit indicators related to climate-adaptation and climate-mitigation outcomes across all sector-specific frameworks, as well as adding gender-specific indicators. Gender-related indicators can apply to key stakeholder groups such as employees, consumers or local communities.

Projects that support expected positive climate and environmental benefits, as well as positive gender outcomes, are expected to deliver better development outcomes and will therefore receive higher scores and ratings than projects without such benefits. The IMPACT framework has been further enhanced to implement an "inclusion uplift" methodology whereby—subject to a range of required conditions—certain projects that display a significant focus on underserved groups (e.g. women, rural residents, ethnic minorities and indigenous people) may receive a scoring upgrade that can translate into a higher IMPACT rating.

The IMPACT framework remains adaptive and flexible to adjust to developing market conditions, key WBG and MIGA strategic priorities, and further advancements in project evaluation and development assessment frameworks.


## Gender Leadership Award

MIGA's Gender Leadership Award recognizes senior managers with a proven track record of furthering the cause of women's advancement and gender equality in business, while contributing to the World Bank Group's Twin Goals of ending extreme poverty and boosting shared prosperity. In 2022 the Gender Leadership Award recognized Lucy Heintz, partner and head of energy infrastructure at Actis, a leading global investor in sustainable infrastructure, for her commitment to furthering gender equality in the workplace.

**"I care passionately about inclusion in all forms, as it's what delivers superior performance and advances economic development. What we appreciate so much about our partnership with MIGA is the commitment, energy, resilience and tenacity to solving challenges together."**

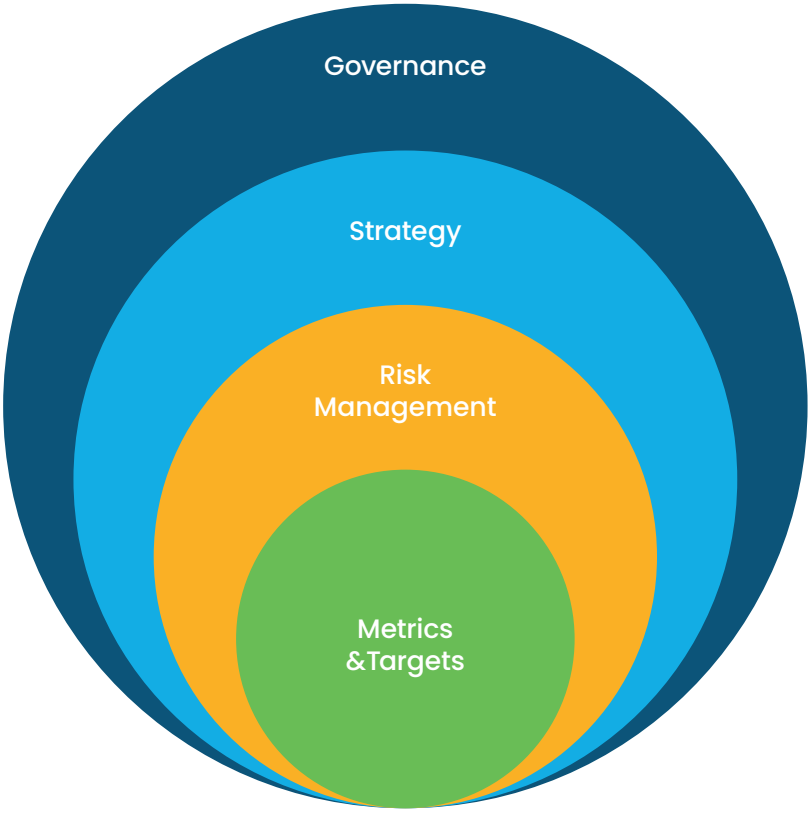
# Report Under the Task Force on Climate-Related Financial Disclosures

This report is MIGA's second disclosure under the guidelines recommended by the Task Force on Climate-related Financial Disclosures (TCFD). It follows the implementation of the second year of the World Bank Group (WBG) Climate Change Action Plan 2021–2025 (CCAP), which is shaping the WBG's climate action efforts and aims to deliver record levels of climate finance. MIGA's client countries are facing compounding crises from the COVID-19 pandemic, the war in Ukraine, inflation, geopolitical tensions, climate change, and global food and energy insecurity. This has presented increasing challenges for climate action and has also amplified the necessity of integrating climate with development. To this end, MIGA is boosting support for climate action as a key element of broader strategies for green, resilient and inclusive development (GRID).

As MIGA's second TCFD disclosure, this report aims to highlight MIGA's climate change strategy, internal procedures for climate change management, climate risks screened by MIGA, and climate finance results. It should be noted that MIGA's internal policies and procedures continue to evolve and undergo enhancements as MIGA's organizational footprint and climate action results are being strengthened. This report reflects MIGA's continued commitment to adopt the recommendations of the TCFD and employ best practices for mainstreaming climate change management across all aspects of our mission.

The TCFD's recommendations on climate-related financial disclosure are structured around four core elements (Figure 1), and this report takes these core elements as its organizing principles.

**Figure 1: Core Elements of the TCFD framework**



# A. Governance

All aspects of MIGA's climate business and internal climate change management procedures are overseen by **MIGA's Executive Vice President (EVP)**, who reports to the **President of the WBG**. The WBG President sets the overall ambition on climate action for the WBG and is selected by the World Bank, IFC and MIGA Boards of Directors. MIGA's **Board of Directors**, comprising 25 representatives from MIGA's member countries, is responsible for approving all of MIGA's climate business operations, policies and overall governance structures. Notably, in 2020 and 2021, the MIGA Board of Directors endorsed a new climate finance target and a timetable for aligning WBG, including MIGA, operations with the goals of the Paris Agreement. These objectives will drive MIGA's climate business and climate change management procedures over the CCAP period. MIGA management reports its progress to MIGA's Board of Directors as part of the biannual EVP Reports. MIGA, on an annual basis, also reports jointly with the World Bank and IFC on CCAP results to the WBG Board of Directors.

## Vice Presidential and Departmental Leadership

Under the responsibility of MIGA's EVP are two Vice Presidents. The **Vice President, Operations**, oversees the Operations departments, which are mandated to seek opportunities to grow MIGA's climate business. The **Vice President, Chief Risk, Legal & Sustainability Officer and Partnerships** oversees three MIGA departments: (a) Finance and Risk Management, (b) Economics and Sustainability, and (c) Legal Affairs and Claims. The Economics and Sustainability department is mandated to provide climate analytics and technical expertise to MIGA's climate business; contribute to WBG climate analytics and strategy; support the development of MIGA's climate business, and evaluate, monitor and report on MIGA's climate activities. MIGA's Vice Presidents also participate in various WBG formal and informal groups that review major WBG initiatives, strategies, policies and targets—including those pertaining to climate—before submission to the Board of Directors.

The **Director of Economics and Sustainability** (under the supervision of the Vice President, Chief Risk, Legal & Sustainability Officer and Partnerships) oversees the Sustainability and Climate Units, which work with MIGA's operations management and staff, as well as clients, to address environmental and social risks and the impacts of climate change in all of MIGA's operations. The unit includes a team of climate change specialists, led by a Sector Manager. The unit is responsible for evaluating all new business for climate mitigation and adaptation finance opportunities; conducting climate risk analysis and climate resilience planning; greenhouse gas (GHG) accounting; internal and external capacity building on low-carbon and climate-resilient topics; and providing inputs for carbon pricing analysis, environmental and social project due diligence, development impact assessments, and climate-related commitments in legal contracts. The team of climate change specialists also actively monitors the existing portfolio of projects to ensure climate action commitments made at the project approval stage are being adhered to. In addition, MIGA's climate change specialists participate in various WBG initiatives to boost climate results at the programmatic level; joint working groups with other multilateral development banks (MDBs) on harmonizing approaches related to climate finance and Paris Agreement alignment, and in external fora to demonstrate MIGA's climate-related innovations and results to public audiences.

**"The TCFD recommendations are a substantial step in progressing consistency and transparency in reporting on climate-related risks and opportunities."**

Ethiopis Tafara, MIGA Vice President

The **Vice President, Operations,** oversees all guarantee operations at MIGA. Two operations departments are under this leadership: (a) Infrastructure, Manufacturing, Agribusiness, Services (MAS) and Trade Operations; and (b) Climate, Energy, Extractives, Capital and Financial Markets Operations. The Vice President for Operations formulates MIGA's implementation plans at the agency, sectoral and regional levels to grow MIGA's climate business and to foster MIGA's climate objectives. Within this department, selected senior underwriters have dedicated work programs to advance MIGA's climate mandate by: defining new MIGA product innovations and applications to boost low-carbon and climate resilient growth in MIGA's client countries; working upstream with private and public sector partners on developing new climate business and working alongside climate change specialists from the Sustainability and Climate Units to advance technical competencies with MIGA's clients. Both operations departments work to drive and innovate MIGA's products and product applications, achieve business targets (including climate finance targets), and grow MIGA's guarantee business in climate activities.

## Strategy, Policy and Project Review Process

MIGA's strategies, policies and projects are overseen by the **MIGA Management Team (MMT)**, which includes MIGA's Directors, Vice Presidents and Executive Vice President.

The MMT reviews all guarantee projects to be supported by MIGA in two stages:

1. At the *Early Screening Committee Meeting*, chaired by MIGA's EVP, the MIGA project team presents the project rationale and a preliminary evaluation of the project, including if the project is aligned with MIGA's mandate, business strategy and policies. Climate finance opportunities, and physical and transition climate risks, are flagged at this stage. The project team will also provide a preliminary view on the potential for the project to advance, hinder or be neutral to the goals of the Paris Agreement. The project is also screened against MIGA's Sustainability Policy and MIGA's Environmental and Social Performance Standards. If approved at this stage, the project will proceed to due diligence, where a thorough assessment will take place, including the identification of any necessary improvements to better align the project with MIGA's climate commitments.

2. At the *Project Review Committee Meeting*, a decision meeting chaired by MIGA's EVP, the project team presents the full evaluation of the project, including: climate mitigation and climate adaptation finance determinations; exposure to physical climate risks and if the project's performance could be impacted by climate change and the necessary resilience-building requirements to limit material adverse effects; any avoided GHG emissions or climate mitigation benefits of the project, and further qualification on the potential for the project to advance, hinder or be neutral to goals of the Paris Agreement. To ensure the project is consistent with MIGA's Sustainability Policy and MIGA's Environmental and Social Performance Standards, climate risks, resilience-building requirements and gross GHG emissions are captured in both the Environmental and Social Review Summary (ESRS) and the Environmental and Social Action Plan (ESAP) for the project. The ESRS and ESAP are publicly disclosed on MIGA's website in accordance with MIGA's disclosure requirements. If a project is approved at this stage, it will then proceed for approval to MIGA's Board of Directors, under the delegated authority from the WBG President to MIGA's EVP.

When projects are submitted to MIGA's Board of Directors, the project document prepared for the Board will highlight all pertinent climate analysis, including: climate mitigation and climate adaptation finance determinations; physical and transition climate risks; action items to boost the climate resilience of the project, if necessary; the development effects of any climate co-benefits generated by the project; any project monitoring requirements, and any contractual commitments to which the client will agree to ensure the project is aligned with MIGA's mandate. All individual projects supported by MIGA are either approved by the Board of Directors directly or under specific authority delegated by the Board to MIGA's management. MIGA's Board of Directors can seek clarification from MIGA management, including on climate risks and resilience requirements, opportunities to maximize climate finance by enhancing the climate mitigation or climate adaptation benefits, and, in future, the project's alignment with the goals of the Paris Agreement.

# B. Strategy

## Increasing MIGA's Support to Cross-Border Climate Finance Investments

MIGA's political risk insurance and credit enhancement products continue to play an instrumental role in mobilizing long-term cross-border investments for climate mitigation and climate adaptation. Private sector finance is critical to meeting the funding needs of ambitious climate action in developing countries. Yet, non-commercial risks continue to serve as deterrents, in particular for transformational energy or infrastructure investments, or for raising long-term financing from commercial banks, financial institutions or in the capital markets. Through deployment of MIGA's guarantees, MIGA is boosting private sector participation in support of low-carbon and climate-resilient development in MIGA's client countries. In FY22 MIGA issued more than $1.14 billion of guarantees supporting climate change mitigation or adaptation in 17 countries across four regions, representing 28 percent of its issuance, up from 13 percent just five years ago.

## Implementing the Climate Change Action Plan

The **WBG Climate Change Action Plan (CCAP) 2021–2025** aims to integrate climate with development and advance the WBG's Green, Resilient and Inclusive Development (GRID) objectives by focusing on people, natural capital and partners. The CCAP reflects the WBG's ambition to support its public and private sector clients to maximize the impact of climate finance, aiming for measurable improvements in climate adaptation and resilience and reductions in GHG emissions. It has three pillars:

- integrating climate and development;
- prioritizing key systems transitions by identifying the largest climate mitigation and adaptation opportunities, and
- driving climate finance and leveraging private capital to deliver the maximum results.

Climate change is a priority area for MIGA, along with support for low-income (IDA-eligible) countries and countries facing fragility, conflict and violence (FCV). MIGA's climate strategy reflects the ambition of the commitments made in both the CCAP and **MIGA's Strategy and Business Outlook: FY21–23,** to deepen its impact. MIGA's commitments under the CCAP include:

- increasing the share of MIGA guarantees toward climate mitigation and adaptation to an average of 35 percent of MIGA's overall business during the 2021 to 2025 period;
- working with the World Bank and IFC to produce the WBG's own dedicated country climate and development diagnostics, the Country Climate and Development Report (CCDRs). These diagnostics will help countries align their climate action and development agendas by capturing key mechanisms by which climate change is affecting economic, environmental and social support systems. They aim to identify the main pathways and priority actions to reduce GHG emissions and climate vulnerabilities;
- mobilizing more private capital toward climate action through innovative applications of MIGA's political risk insurance and credit enhancement products in high climate-impact sectors;
- aligning MIGA's financial flows with the low-carbon and climate-resilient objectives of the Paris Agreement by (i) ensuring that 85 percent of Board-approved operations are aligned with the goals of the Paris Agreement starting on July 1, 2023 and 100 percent starting on July 1, 2025 (which will require beginning to align 100 percent of MIGA's projects at the concept stage well ahead of July 1, 2023). These timelines apply to MIGA's real sector guarantee projects and financial intermediary guarantee projects—that is all MIGA guarantees; and
- boosting private sector investments for resilience and climate adaptation by screening all proposed MIGA guarantees for physical climate risks by the end of FY23.

MIGA continues to focus on **five strategic areas** for its climate business: *clean energy, climate-smart agribusiness, green buildings, public transportation and green finance*. Support for these sectors is a key driver of low-carbon and climate-resilient development, and in supporting these sectors MIGA evaluates the materiality of both physical and transition climate-related risks to ensure investments will deliver on their intended development objectives.

MIGA continues to expand its focus on climate in the following areas:

*Energy*: MIGA is working to mobilize private sector financing for the clean energy transition by growing its renewables portfolio in utility-scale solar, wind, hydropower and geothermal power generation and distribution. This includes support for: micro-, mini- and off-grid solutions that can accelerate electrification to

underserved communities; battery energy storage systems; transmission and distribution; energy efficiency; green hydrogen; co-generation, and power system planning. A **just transition away from coal** is crucial to achieving the goals of the **Paris Agreement**. MIGA, in collaboration with the World Bank and IFC, is working with our clients to support the phase out of coal, including through innovative financing or de-risking instruments and incentives. The transition away from coal must be done justly, with due attention to people in coal-producing regions and related income effects. The WBG stopped direct financing of new utility-scale coal-fired power projects in 2010. As of 2019 the WBG does not support upstream oil and natural gas. In specific cases, natural gas may be useful in accelerating the transition away from coal; natural gas may also be essential to enhance power supply reliability and grid stability, thus facilitating higher rates of renewable integration. All investments in natural gas are assessed to ensure they are consistent with long-term decarbonization strategies, national climate change commitments, and do not result in carbon lock-in.

**The World Bank Group stopped direct financing of new utility-scale coal-fired power projects in 2010. As of 2019 the WBG does not support upstream oil and natural gas.**

*Cities*: MIGA is scaling up its efforts to help decarbonize and boost the climate resilience of cities. MIGA's green-building business is expanding, both through de-risking project finance for asset owners directly and by supporting financial intermediaries who are developing green financial instruments such as green mortgages or green construction finance. MIGA is also helping cities develop green urban areas, build multi-modal transportation options, improve solid waste and wastewater treatment, boost urban water supply, invest in energy efficiency improvements and strengthen stormwater drainage systems.

*Transportation*: MIGA is helping decarbonize transportation through investments in urban mass transport systems, electric mobility, rail, lower carbon fuels, ports and rural roads. Investments are checked to ensure they align with low-carbon transportation strategies for a country, and that any fossil-fuel-intensive transportation systems do not delay or prevent the transition to lower-carbon alternatives. Transportation systems also need to withstand long-term changes in climate and extreme weather events; as such, MIGA is ensuring transportation infrastructure is designed with appropriate design allowances, including redundancy options and appropriate maintenance budgets and schedules.

*Manufacturing*: MIGA is improving resource efficiencies and supporting proven abatement measures and lower-carbon solutions to decarbonize the manufacturing sector. Three principles are guiding MIGA's investments across heavy manufacturing industries:

- not supporting new coal-fired power projects or the so-called "wet process" in cement;
- differentiating the sustainability and climate "bar" for supported investments based on the development stage of client countries, while also promoting progressive transitional sustainability improvements where absolute sustainability is not yet achievable; and
- assessing the sustainability and climate-related drivers in projects, such as energy sources and alternatives, materials used and alternatives, products produced and alternatives, and process technology, striving for best-in-class production processes.

*Climate-smart agriculture*: MIGA is increasing its support for climate-smart agriculture to enhance productivity, reduce GHG emissions and improve resilience. By supporting cross-border investments, MIGA is also encouraging technology and skills transfers to help boost local agricultural practices and livelihoods. In addition, by focusing along the entire agricultural value chain, MIGA is aiming to increase resource efficiencies, increase productivities and net returns, reduce food insecurity and improve gender inclusion.

*Financial institutions*: MIGA is also prioritizing the use of its guarantee products to support the greening of financial institutions (FIs), with a focus on promoting climate-friendly, sustainable financing practices. MIGA's engagement with FI clients is serving to channel the use of proceeds of MIGA-supported finance—or the capital relief facilitated by MIGA's capital optimization product—toward climate adaptation and mitigation investments. In addition, MIGA dose not support FI clients that do not have a plan to phase out their investments in coal and coal-related projects over an agreed period of time, but no later than 2030. MIGA is also piloting the joint MDB Paris Alignment framework for FIs, which, depending on the nature of MIGA's project with an FI, will include either:

- a transaction-based approach that aims to ensure that the defined use of proceeds supported by the

MIGA cover is consistent with the low-carbon and climate-resilient goals of the Paris Agreement; or

- a counter-party-based approach where use of proceeds is not defined, in which case MIGA will work with its FI client to develop and implement climate-risk management systems, consistent with low-carbon and climate resilient goals of the Paris Agreement.

## C. Risk Management

MIGA identifies, assesses, manages and reports climate risks in accordance with MIGA's Policy on Environmental and Social Sustainability, and MIGA's Access to Information Policy. The Policy on Environmental and Social Sustainability outlines MIGA's Performance Standards and MIGA's commitment to sustainable development. MIGA's Access to Information Policy reflects MIGA's commitment to transparency and good governance and outlines its disclosure obligations. The MIGA Performance Standards are directed towards clients, providing guidance on how to identify environmental and social risks in relation to project-level activities. When issuing a MIGA guarantee (including guarantees for real sector projects and in support of financial intermediaries), MIGA requires its clients to apply the Performance Standards to manage environmental and social risks, ensuring environmental and social systems are protected as development outcomes are achieved.

Core elements of this policy require that all projects supported by MIGA must be screened against applicable Performance Standards. For each project supported by MIGA, before Board approval, an Environmental and

**Table 1: Examples of selected physical climate risks screened for real-sector projects**

| Physical Climate Risks | | |
|---|---|---|
| Category | Hazard | Example Indicators |
| **Acute** | Extreme rainfall | • Change in 10/20/50/100-year return period for maximum 1/5/30-day rainfall<br>• Total days with higher than 25/75/100/150/200 mm rainfall |
| | Extreme temperature | • Number of days with daily maximum temperatures exceeding 40C<br>• Monthly mean of daily maximum temperature |
| | Extreme wind (tropical cyclones) | • Annual exceedance probability of experiencing 60 second gust 10-m wind speed of at least 34/64/96 knots<br>• Number of days per year with the daily mean wind speeds exceeding 8/10/15/20 meters/second |
| | Drought | • The annual probability of experiencing moderate/severe/extreme drought conditions over short/medium/long-term as determined by SPEI<br>• Mean annual SPEI for short/medium/long-term drought |
| | Wildfire | • Mean/max/min fire danger according to the CFWI<br>• Number of days with high fire risk |
| **Chronic** | Sea-level rise | • Mean sea-level rise |
| | Water scarcity | • World Resource Institute, Aqueduct Water Scarcity Index |
| | Mean rainfall | • Absolute/relative change in monthly mean rainfall<br>• Number of days with rainfall |
| | Mean temperature | • Absolute/relative change in mean monthly temperatures<br>• Change in mean temperature of the warmest season |
| | Mean Wind | • Annual mean wind speed<br>• Absolute/relative change in annual mean wind speed |

Source: Multilateral Investment Guarantee Agency

Social Review Summary that captures E&S risks (including climate-related physical and transition risks and mitigation options) is publicly disclosed. The disclosure period varies by the nature of the risks and expected impacts for a project but is typically either 30 or 60 days.

Among the MIGA Performance Standards (PS), physical and transition climate-related risks are identified and addressed within *PS1: Assessment and Management of Environmental and Social Risks and Impacts; and PS3: Resource Efficiency and Pollution Prevention.*

Within PS1, climate-related physical risks that can affect the performance of a project are identified, evaluated and addressed. The assessment includes a description of climate change hazards from a review of climate model projections and observational datasets, climate-specific project vulnerabilities, and coping capacities or climate resilience measures being taken to limit any adverse climate-related impacts to and by the project. Table 1 provides examples of the types of physical climate risks that may be assessed under PS1.

All real-sector projects in all regions are screened for physical climate risks. MIGA has developed an internal climate risk screening tool that extracts climate change projections from climate models from the fifth phase of the Coupled Model Intercomparison Project (CMIP5). The tool provides climate hazard projections over multiple time horizons (baseline, 2025, 2035). In assessing the materiality of climate risks, MIGA applies a climate and risk vulnerability screening approach that centers on three key steps:

1. setting the climate vulnerability context by defining the project scope, boundaries and climate hazards to be evaluated;
2. identifying location and project-specific climate change vulnerabilities, including assessing the materiality of climate risks across multiple time horizons and warming scenarios; and
3. defining necessary climate adaptation or resilience-building interventions to limit any adverse effects to and by the project as a result of climate change.

Within PS3, climate-related transition risks are evaluated. Table 2 describes examples of climate-related transition risks. Currently, the evaluation is limited to GHG accounting for Scope 1 and Scope 2 emissions generated by the project..

Under the requirements of PS3, all projects that are expected to generate more than 25,000 tons of carbon dioxide equivalent (tCO2e) annually must quantify and report to MIGA (i) the direct emissions from the facilities owned or controlled within the physical project boundary; and (ii) the indirect emissions associated with the off-site production of power used by the project.

MIGA's Contract of Guarantee typically includes an Environmental and Social Action Plan (ESAP) for projects where PS gaps were identified during the project due diligence. Monitoring requirements are also included, and MIGA's clients must submit Annual Monitoring Reports (AMRs) and status reports on the ESAP. In addition, MIGA staff may conduct periodic site monitoring visits to ensure compliance.

MIGA also started piloting carbon pricing to further address transition risks in the economic analysis for carbon-intensive projects. A carbon price is included in the economic analysis of MIGA projects that have a defined use of proceeds and where estimated annual project emissions exceed 25,000 tCO2e. The carbon price levels applied are in line with the 2016 report of the High-Level Commission on Carbon Prices and consistent with those used by the World Bank. Both low and

### Table 2: Examples of transition climate risks considered for real-sector projects

| Transition Climate Risks | | |
|---|---|---|
| Category | Description | Time Horizon |
| **Policy** | Changing national policies that render existing carbon-intensive activities less financially viable, increasing the potential for stranded assets. For example, carbon taxes, mandatory energy efficiency standards, etc. | Near to middle term |
| **Legal** | Claims related to disclosure obligations or for failure to mitigate climate risks | Near to middle term |
| **Technology** | Lower carbon and disruptive technologies that could make existing carbon-intensive technologies obsolete | Middle to long term |
| **Market** | Changing demand and prices, or uncertain market signals for fossil fuels | Middle to long term |
| **Reputational** | Negative stakeholder perceptions due to the stigmatization of specific sectors | Near term |

Source: Multilateral Investment Guarantee Agency

high carbon values are used in project analysis. Carbon price levels depend on the host country income grouping as classified by the WBG, with low values starting at $40 per tCO2e in 2020 and increasing to $78 in 2050, and high values starting at $80 in 2020 and reaching $156 by 2050.

# D. Metrics and Targets

## Climate Change Targets

To support low-carbon and resilient development across sectors, MIGA continues to diversify its climate business and identify new areas of growth. Under the WBG's CCAP, 35 percent of MIGA's gross issuance is targeted to consist of direct climate finance over the five-year period of 2021–25, on average. In addition, MIGA has made commitments for projects to be aligned with the low-carbon and climate-resilient development goals of the Paris Agreement. MIGA will align 85 percent of Board-approved operations starting July 1, 2023, and 100 percent of MIGA's operations by 2025.

In FY22 direct climate finance accounted for 28 percent of MIGA's total issuance (Figure 2). By regional breakdown, the largest share of this issuance was provided to the Middle East and North Africa (Figure 3). However, when considering a 5-year period, the greatest share of climate finance issuance has been directed to Sub-Saharan Africa (Figure 4). These results show that MIGA's climate finance issuance supports low-carbon and climate-resilient projects across the globe, with little concentration in any particular region or sector (Figure 5).

**Figure 2: MIGA's climate finance issuance**

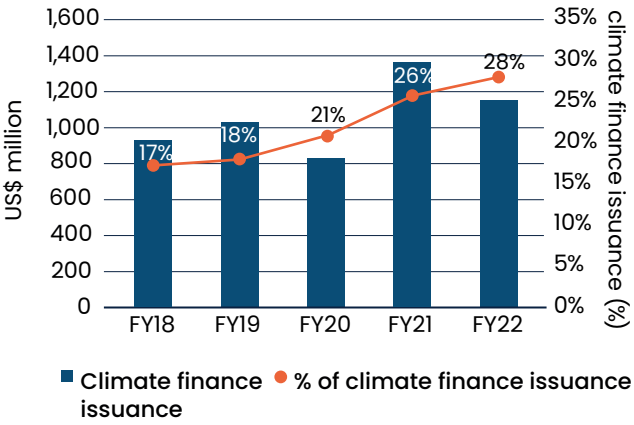
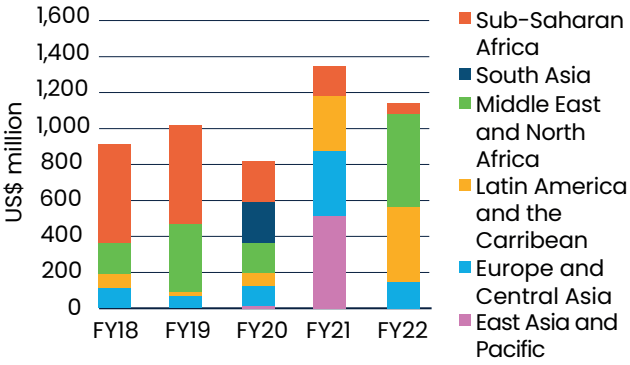



**Figure 3: MIGA's climate finance issuance by region by year**




## Development Impact

Highlights of MIGA-supported projects' anticipated results (FY18-FY22) include:

- projects that provide over 17 million people with access to power generated from renewable sources;
- projects for renewable energy and energy efficiency, which are expected to result in over 10 million metric tons of avoided GHG emissions per year; and
- projects that enable over $680 million in climate finance by local financial institutions, of which $486 million was in FY22 alone.

MIGA has developed an internal Impact Performance Assessment and Comparison Tool (IMPACT), which assesses and rates expected (ex ante), project-specific outcomes (including those related to environmental

and climate outcomes) as well as beyond-the-project outcomes that provide positive demonstration effects to investors (including those pertaining to environment and climate). Before approval, all projects are assessed and rated by the IMPACT process for expected development outcomes. Projects that support expected positive climate and environmental outcomes are anticipated to deliver better development outcomes and receive higher ratings than projects without these benefits.

## Greenhouse Gas (GHG) Emissions and Footprint

MIGA continues to calculate and report GHG emissions avoided (metric tons of carbon dioxide equivalent or tCO2e/year) and GHG gross emissions (Scope 1 and 2). MIGA calculates gross GHG emissions for all real sector projects with emissions of more than 25,000 tCO2e. MIGA continues to disclose ex ante estimated annual gross GHG emissions through the publicly available Environmental and Social Review Summary available for all MIGA projects.

The WBG measures, manages and offsets GHG emissions associated with business operations. In line with the WBG's work through the Carbon Pricing Leadership Coalition, the WBG uses $50/ton (consistent with the Stern/Stiglitz High Level Commission on Carbon Price) as the price of carbon on air travel, while incentivizing staff to explore alternative modes of transport. In FY22, MIGA resumed travel to projects and client countries. As a result of these business activities and associated travel, MIGA's carbon emissions amounted to 489 tCO2e, for a carbon cost of about $24,442. This is significantly less than the pre-COVID footprint in FY20, which was about 1,400 tCO2e.

**Figure 4: MIGA's climate finance issuance by region over a 5-year period**

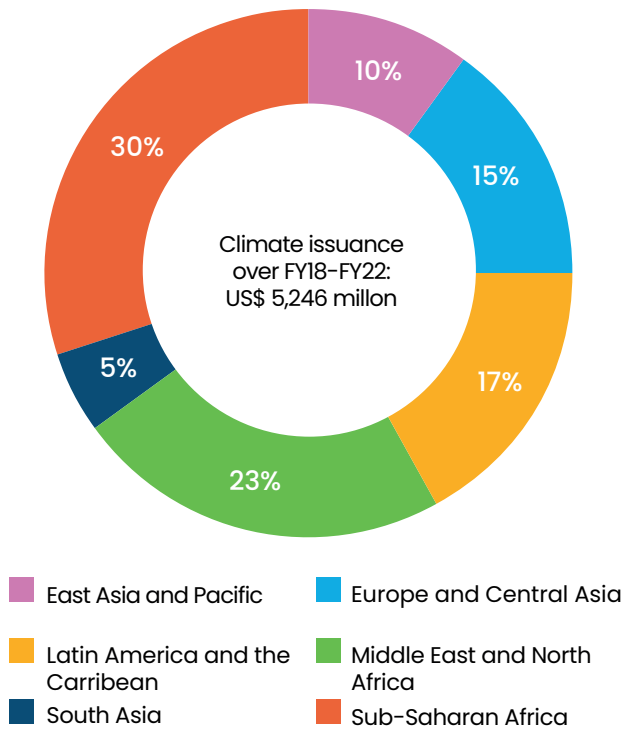



**Figure 5: MIGA's climate finance issuance by sector over a 5-year period**