

IFC'S ROLE IN FINANCING INDUSTRIAL DECARBONIZATION

**International Climate Change Forum
Sri Lanka**

NOVEMBER 2023



GLOBAL INVESTORS AND MNCs HAVE TAKEN ACTIVE STANCE ON NET-ZERO

Pressure to act (starting in 2020s), including Firms in the Emerging Markets



- **Post COP-27 nearly 91% of the world is committed to 'Net-Zero'** with the announced pledge of India and other developing countries
- **Pressure to Act** : More than 1,000 companies (US\$23 trillion market cap; 60 countries) setting 1.5°C-aligned science-based targets as part of a global campaign to rapidly scale corporate climate ambition (*SBTi and UN Global Compact, COP26*)
- **More ESG in Global Finance**: 33% of global assets under management have ESG metrics (esp. climate; Blackrock)
- **Surge in Climate Financing**: Sustainability-linked lending skyrocketed from \$5B in 2017 to \$120B in 2020 (and continues to grow almost exponentially)
- **Rising Carbon Cost**: From long-term avg. \$3/ton to \$35/ton in 2021 (and over \$70/ton in EU), up \$20 since end of 2020 (IHS Markit's Global Carbon Index)
- **Strong corporate involvement across consumer-facing sectors**; 18 Sectors have reached breakthrough potential (*20% of major cos by revenue committed to Net-Zero*)

IFC'S OFFERING TO SUPPORT CLIENT'S DECARBONIZATION JOURNEY

Providing advisory and investment services to support decarbonization of portfolio of assets in emerging markets



Advisory

- Advice on developing bankable green projects for best ROI
- Zero-carbon/ Low-carbon 'Transition Pathways' for companies
- Supporting/ structuring climate-finance deals
- KPIs setting for accessing Sustainability-linked Financing
- Compliance with financial instruments such as green bonds



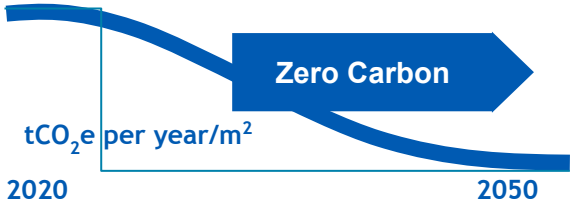
Investment

- Sustainability Coordinator in structuring green financing sources for implementing sustainability roadmap and providing governance support
- Equity, debt, guarantees and risk-sharing facilities, structured finance, green bonds, SLL/B and in some cases, blended concessional finance



Global Standard and Market Transformation

- An easy way to design and build green, or to retrofit existing assets, to a globally recognized standard
- Awareness raising and technical assistance for policy makers, financial intermediaries, developers, advisors, and occupants.



- IFC will utilize globally recognized standard for green finance and public policy
- IFC will help leaders map a path to zero carbon and track their progress on it.




Investment operations in clean energy, sustainable cities, industrial efficiency, climate-smart agribusiness, green buildings, and green finance

In FY23, IFC committed \$14.4 billion in climate finance, mobilizing additional \$6.8 billion along with \$7.6 billion own investment

'SUSTAINABLE FINANCE' TO SUPPORT OUR CLIENT'S DECARBONIZATION JOURNEY

- Sustainable finance typically refers to “**labelled**” financial products that follow recognized standards/principles
- They fall in two main categories: (i) use of proceeds instruments; and (ii) KPI driven instruments.

Item	“Use of Proceeds” - Green / Social / Blue / Sustainable	“Target Driven” - Sustainability-Linked Financings
Description	<ul style="list-style-type: none"> ▪ Financial instruments with a dedicated use of proceeds focused on eligible categories, including: <ul style="list-style-type: none"> ✓ Climate adaptation ✓ Climate mitigation ✓ Social ✓ Ocean conservation 	<ul style="list-style-type: none"> ▪ Pricing linked to achievement of ambitious targets – Sustainability Performance Targets (“SPTs”) ▪ SPT compliance is verified at an agreed point in time and generally no rebates apply ▪ SPTs are normally SDGs or corporate ESG targets ▪ SPTs need to be material – i.e., relevant to the business; and ambitious compared to “business as usual” and peers
Pricing	<ul style="list-style-type: none"> ▪ Instruments priced in same way as conventional instruments although market demand is leading to a “greenium” for borrowers/issuers 	<ul style="list-style-type: none"> ▪ Interest rate and fees indexed to performance on SPTs ▪ For bonds, at least 25 bps step-up if targets are missed ▪ For loans, up to 25 bps step-down step down if targets are met
Verification	<ul style="list-style-type: none"> ▪ Implementation and validation methodology laid out in a Sustainable Financing Framework ▪ Second Party Opinion usually required 	<ul style="list-style-type: none"> ▪ SPTs rationale, ambitiousness and validation methodology laid out in a Sustainability-Linked Financing Framework ▪ Second Party Opinion usually required
Standards	<ul style="list-style-type: none"> ▪ Aligned with ICMA or LMA’s Green Loan Principles and Green, Social and Sustainability Bond Principles. 	<ul style="list-style-type: none"> ▪ Aligned with ICMA’s Sustainability-Linked Loan / Bond Principles

STRATEGIC ADVISORY SUPPORT – CORPORATE DECARBONIZATION STRATEGY

What can IFC help out with?

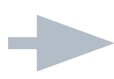
- Carbon footprint assessment (Scopes 1, 2 and where feasible 3)
- GHG reduction target setting: SBTi (or equivalent)
- Identify options for decarbonization (e.g. direct emissions reduction via energy and resource efficiency, renewable energy, explore circular economy solutions, carbon credits)
- Develop 'pilot' projects with GHG mitigating impact
- Design decarbonization roadmap
- Facilitate setting internal carbon pricing
- Work with local Governments to remove barriers and adopt supportive policies and regulations

Two types of decarbonization advisory and upstream services



Help a client understand what it takes to decarbonize / develop a plan

2-4 months



Help develop and start implementing long-term decarbonization strategies

4-8 months

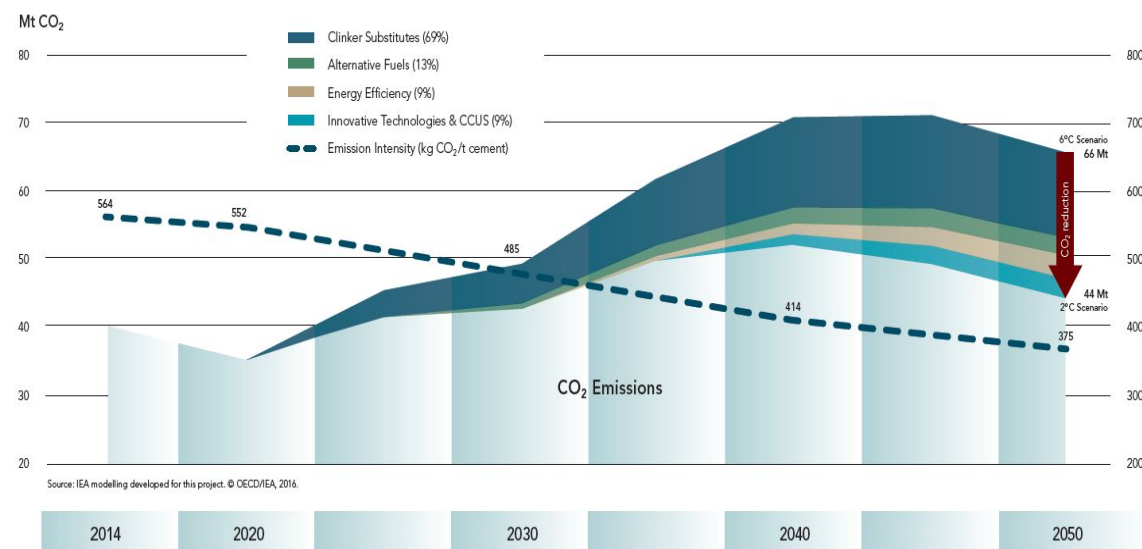


Develop a financeable investment program compatible with Sustainable Finance

IFC is ideally positioned to support your company in decarbonization via:

- A strong in-house industry expertise in climate technologies and renewables
- Convening power of World Bank Group
- Independence from equipment manufacturers and technology providers
- Expertise in bankable project development with climate impact
- Facilitating climate finance deals

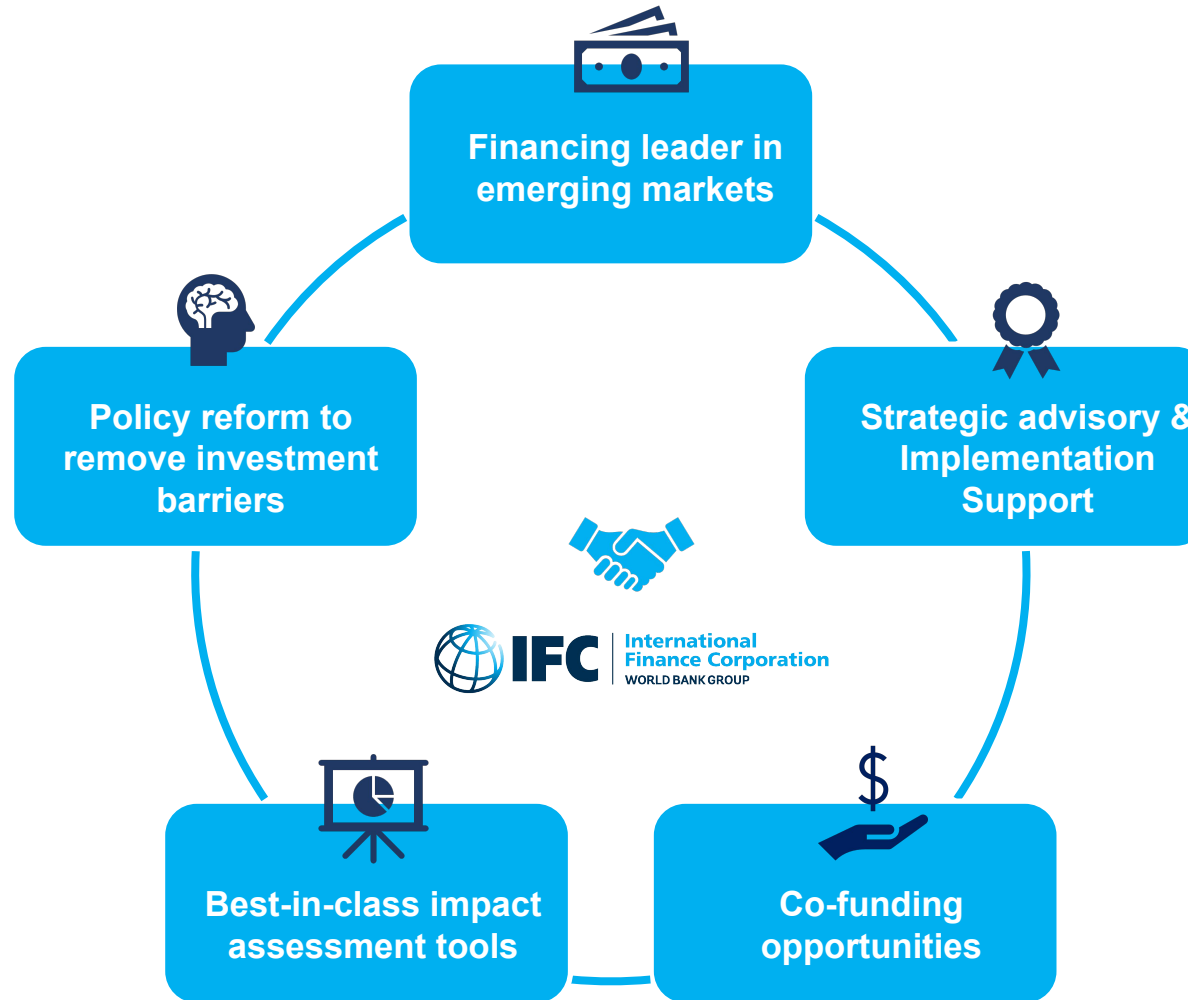
Example: Brazil Low Carbon Technology Roadmap Cement Sector*



* supported by IFC and presented by Brazil at COP 26

SUMMARY – IFC VALUE ADD BEYOND FINANCING

Leveraging a suite of services to create a strategic sustainability partnership that goes well beyond financing



A FEW EXAMPLES OF IFC'S ENGAGEMENT IN DECARBONIZATION & RESOURCE EFFICIENCY

Levi Strauss & Co: Textile & Apparel

IFC Disbursement: \$2.87B Cumulative from the GTSF Program

Client since: 2014

Client Needs:

- Affordable working capital financing for emerging market suppliers that financially incentivizes improvements to supplier sustainability performance
- Decarbonize supply chain to help meet approved science-based corporate target. Specifically, investigate cleaner production, water saving and renewable energy opportunities, facilitate the purchase of technologies and implementation of methods that enable suppliers to evolve to more sustainable production while remaining profitable.
- Improve well-being and develop metrics to measure achievement on labor conditions.

IFC Solutions:

- **Global Trade Supplier Finance (GTSF) Program with PACT+ Tier:** Provides affordable working capital finance to Levi suppliers in 11 countries by purchasing and discounting invoices accepted for payment. IFC financially incentivizes suppliers to improve compliance with the Levi's Terms of Engagement. PACT+ pricing tier provides additional incentive to accelerate the adoption of energy and water saving measures and renewable energy through differentiated pricing based on implementation progress of .
- **Partnership for Cleaner Textiles (PaCT):** provides multi-year expert advisory on energy and water saving, chemical reduction, cleaner production methods, renewable energy procurement and implementation support for the same.
- **Better Work:** The joint IFC-ILO Better Work Program works with suppliers in several countries to improve labor and working conditions. Better Work has also provided Gender Equality and Returns (GEAR) training in Bangladesh to several Levis suppliers.



Expected Results:

Global PaCT Program

- Energy saving— 343,685 MWh/yr
- Water savings – 3,370,361 M3/yr
- GHG Emissions reduction - 162,723 tCO2/yr
- Investment - 28,113,452 US \$

GTSF+

- \$4M in annual disbursements

Better Work:

- Regular labor standard assessments and steady improvement towards full compliance with national and ILO core labor standards

"Reducing global Supply Chain emissions by 40 percent by 2025 is the scope 3/supply chain commitment that we made towards our Science Based Target on Greenhouse gas emissions. IFC programs will be a key to achieving this."

- Michael Koboori, Vice President, Sustainability, Levi Strauss & Co.

Levi's

DCM Sugar Mill & Distillery: Decarbonization Roadmap

Client since: 2005

Client Needs:

- Baseline assessment, Resource efficiency and development of low carbon projects to create decarbonization roadmap for the sugar mill and distillery unit.
- Decarbonize supply chain to help meet approved science-based corporate target. Specifically, investigate cleaner production, water saving to become 100% self reliant and renewable energy opportunities, facilitate the purchase of technologies and implementation of methods that enable suppliers to evolve to more sustainable production while remaining profitable.
- Identify new product line from waste

IFC Solutions:

- Mapping of current state and baseline assessment to understand gap
- Development of low carbon strategy and roadmap: Short term/mid-term/long term targets towards emission reduction strategies
- Decarbonization and co-development of potential projects to prioritize in a phase wise manner.
- Pathway investment strategy, carbon financing
- ESG KPIs, monitoring and verifying framework
- Implementation area- vendor/pilot project development and Knowledge support

Expected Results*:

- **Energy saving: 2,973,423 KWh/year**
- **Water savings :496,512 KI/year**
- **New Products from waste and overall yearly monetary savings: INR 72.60 cr/year**
- **GHG Emissions reduction : 198,000 CO2/year**
- **Investment with payback period 3 years**
- **Transforming towards sustainability**

* Provisional numbers



Aspire to follow best ESG practices which eventually lead to a better bottom line as well as improved social and economic outcomes

Main Goals “Conserve all resources (specifically water and energy consumption) to ensure long term sustainability



DCM SHRIRAM

Growing with trust

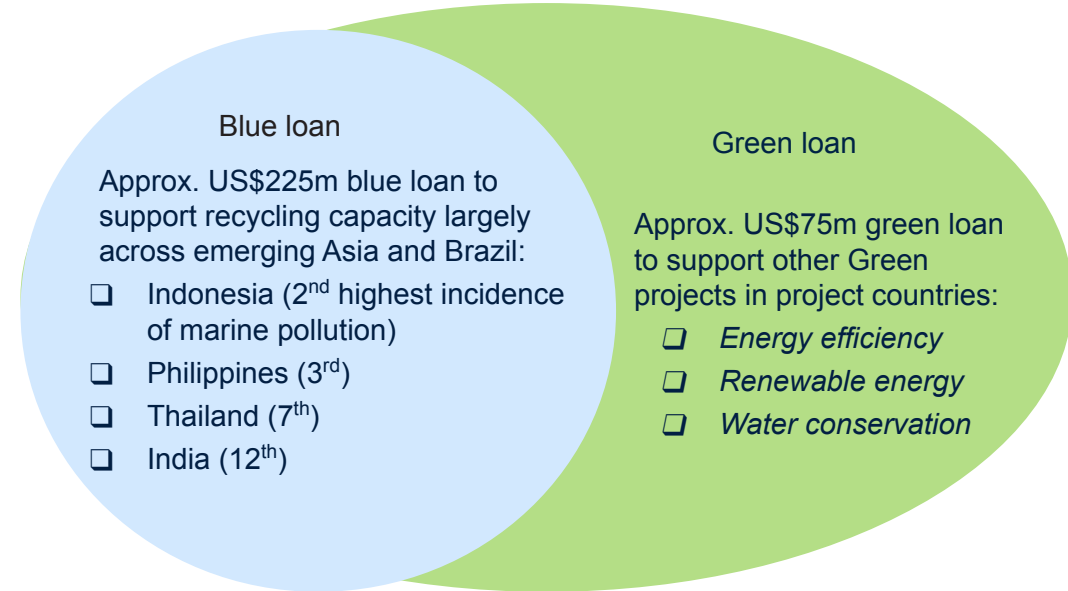
CASE STUDY: BLUE LOAN TO INDORAMA VENTURES PCL

Select investments in circular economy & decarbonization

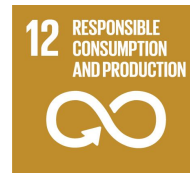
About Indorama Ventures PCL (IVL)

- Major global intermediate petrochemicals producer and one of the largest vertically integrated resin producers in the world:
 - 1 in 5 PET bottles in the world made from IVL's resins
 - 1 in 2 premium baby diapers in the world made from IVL's fibers
 - 1 in 4 airbags in the world made from IVL's yarns
- Global footprint with 120 manufacturing facilities in 33 countries across five continents and over 24,000 employees.
- One of the early entrants in recycling space- started producing PET flakes from discarded PET bottles at flake processing facilities in the Netherlands and France. Grew mainly through M&As in developed markets.

IFC mobilized US\$300m green/blue loan for Indorama Ventures



- ✓ The first IFC Blue loan in real sector
- ✓ The first IFC Green loan in the chemicals sector in the region following international Green Loan Principles
- ✓ Project labeled 100% climate with an AIMM rating of excellent
- ✓ Contribution to several UN Sustainable Development Goals



Recycling PET to displace fossil-fuel based virgin resin reduces energy consumption and GHG emissions. GHG emission reductions for IVL project calculated to be at least 150,000 tCO₂e/year.

IFC'S SUPPORT TO DECARBONIZATION & CIRCULAR ECONOMY: CASE STUDIES

Case study: Decarbonization roadmap in the Chemicals industry

Sector: Chemicals – Plastics

Asia



Project size: US\$100+ million or investment potential identified

Background & Objective

- The client is a manufacturer of plastic resins and various chemical products in Asia
- The client sought IFC expertise in developing its energy related GHG emissions reduction pathways

Approach (under a Joint Development Agreement)

- On Existing plant
 - Resource efficiency assessment,
 - Carbon footprint assessment and GHG emissions reduction pathways,
- Decarbonization of 1.6-1.8 bln. greenfield investment: assess the carbon and water footprint in parallel, as well as identify offsetting opportunities for the greenfield plant.

Value-add

- IFC's engagement resulted in US\$100+ million or investment potential identified, including:
 - Efficiency/ Modernization/ upgrade projects
 - Resource efficiency measures
 - On-site PV
 - Off-site PV and wind
 - Process, product and distribution changes
- With a CO₂ reduction potential of up to 189,000 t/year of CO₂ equivalent

Case study: Green Hydrogen project development

Sector: Chemicals

Latin America



Project size: \$70M (Pilot) - \$2bn (Industrial Scale)

Background & Objective

- Chemical and multi-utility company (the Partners) are contemplating a pilot project in Latin America to explore using Solar Energy as feed stock to produce Hydrogen for transport applications, and ammonia production
- Following successful operations of a small-scale pilot, the Partners intend to develop an integrated power to ammonia plant

Approach (under a Joint Development Agreement)

- **Stage 1:** Conduct a joint feasibility study to establish the viability and scalability of available technology options
- **Stage 2:** Develop a pilot scale plant based on the outcomes of the feasibility study optimizing cost, scale and scale-up risk as well as mitigating operational risks from integrating renewable energy and chemicals production processes. Leverage lessons to develop the technical studies for the industrial scale plant
- **Stage 3:** Finance the developed industrial scale project

Value-add

- Co-finance the feasibility studies for the pilot and world scale project
- Co-finance the development of the pilot project (18KTPA) and subsequently the industrial scale (700KTPA) project
- Provide [up to 25%] of the total project cost and mobilize the full balance of debt / equity funding when the industrial scale project reaches financing stage
- Support E&S compliance with WB/IFC Performance Standards, Structuring and Financing Support

THANK YOU