Guidance 11: Example climate risk clauses

Examples of risk findings during due diligence	*Clause mechanisms*	*Example clause language*
Asset located in high flood risk zone; model projections suggest increased exposure to cyclones over loan tenor	▪ Mandatory resilience investments ▪ Proof of comprehensive insurance coverage ▪ Asset relocation or evidence of contingency planning	*The Borrower shall, within 12 months, install flood resilience infrastructure as specified in the Lender-approved adaptation plan and provide evidence of flood insurance covering at least $10 million. Failure to maintain such insurance constitutes an event of default.*
High exposure to imminent carbon pricing; major sectoral policy shifts anticipated	▪ Submission of credible transition plan ▪ Client Board review and approval of transition plan ▪ Annual compliance attestations ▪ KPIs for policy alignment	*The Borrower shall submit, within six months of first disbursement, a Board-approved low-carbon transition plan aligned with national targets. The Borrower will provide annual written confirmation of compliance with all applicable environmental regulations.*
Borrower emissions footprint exceeds sectoral benchmark; portfolio hotspot for financed emissions	▪ Annual reporting of Scope 1/2/3 emissions (with third-party verification) ▪ Annual emissions reduction targets and progress reports ▪ Loan margin linked to verified reductions	*The Borrower shall report annually on its Scope 1 and 2 GHG emissions, verified by a qualified independent third party. If emissions are reduced by at least 5 per cent year-on-year, the loan margin shall decrease by 25 basis points; failure to report annual GHG emissions, however, constitutes a breach.*
No climate policy; ESG oversight absent; limited management awareness	▪ Formal climate policy development ▪ Appointment of a climate risk officer (or appropriate oversight mechanism) ▪ Board/management training milestones	*Within nine months, the Borrower shall adopt a climate risk management policy and designate a member of senior management to oversee climate risk as a priority theme. Progress will be reviewed annually as a condition for continued funding.*
Plausible scenario of severe regulatory or physical risk impact within loan tenor	▪ Mandatory plan update if scenario triggers are met ▪ Periodic risk reviews ▪ Additional information rights	*In the event that government policy on carbon policy is enacted, the Borrower shall within 60 days update its climate strategy and submit an impact mitigation addendum to the Lender.*
Climate risk deemed material to transaction	▪ Mandatory inclusion of relevant clauses per toolkit ▪ Board-level notification ▪ Enhanced monitoring/reporting	*Where climate risk is assessed as* material by the Lender's due diligence, the Borrower is required to comply with all risk-specific covenants as stipulated herein. The Lender reserves the right to escalate material non-compliance *to its Board and may require intensified risk mitigation measures.*

Important note:
The clauses mentioned above are illustrative and must be reviewed by legal counsel for enforceability and compliance with local laws.

Some clauses may not be directly relevant to MFIs, but the domain and direction are worth considering.