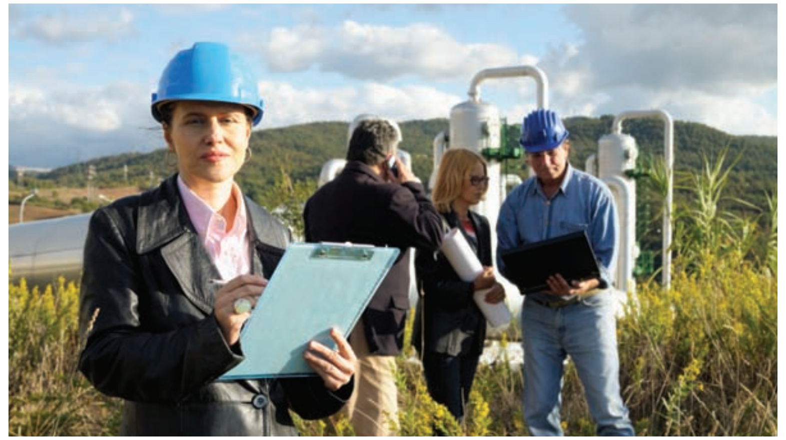

Climate Business Department

The Climate Business Department (CBG) was created in 2010 as a new department and collaborative platform to coordinate, catalyze and optimize all climate business activities within IFC on the investment and advisory side. CBG works closely with other industry investment groups within IFC, including Infrastructure and Natural Resources; Manufacturing, Agribusiness and Services (MAS); and Financial Markets, as well as all Advisory Services business lines and appropriate counterparts within the World Bank, located both at HQ and in the regions. CBG is unique for its global perspective on climate, technologies and development, its long-term approach to investments, and its ability to leverage the resources of the entire World Bank Group, as well as its commitment to maximizing value of portfolio companies through sustained assistance.

www.ifc.org/climatebusiness

About the International Finance Corporation (IFC)

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments. In FY12, our investments reached an all-time high of more than $20 billion, leveraging the power of the private sector to create jobs, spark innovation, and tackle the world's most pressing development challenges.

For more information,
visit **ifc.org**.

Credits

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June 2013

International Finance Corporation
World Bank Group

ifc.org

Climate Change

IFC's RESPONSE

International Finance Corporation
World Bank Group

Introduction

In 1992 at Rio de Janeiro, the international community adopted the first widely approved statement of concern about the dangers of climate change—the Protocol to the UN Framework Convention on Climate Change. The Convention became effective in March 1994. As of early 2013, the Protocol has been ratified by 192 countries.

This is the story of how one major global development institution, the International Finance Corporation (IFC), recognized and responded to the challenge of climate change, and was itself transformed in the experience. Addressing climate change affected IFC at every organizational level, from high-level policy issues such as the role to take in supporting the use of fossil fuel, to highly technical and operational issues, such as tracking greenhouse gas emissions, and evaluating investments while taking into account the uncertain impacts of climate change.

The introduction of donor funds for climate projects, while generating new investment opportunities, also required new rules and procedures. The maintenance of a coherent approach ultimately necessitated the creation of a new IFC department—the Climate Business Department—and a decision to make climate change one of six strategic priorities, making climate change central to IFC's development goals.

Where We Are

IFC's investment in clean energy and other climate related businesses has risen from a few hundred million dollars about eight years ago to over $1.6 billion in the more recent years. Our Performance Standards now require consideration of climate risks, and a pilot program is testing methods to fulfill this commitment. Our advisory programs are supporting a growing portfolio of projects to develop climate markets and adaptive response strategies. The risks posed by climate change constitute an ever changing landscape, and IFC continues to evolve and refine its response.

Where We Want to Be

IFC's pledge is that by FY2015 it will nearly double its climate business to about $3 billion annually. Business development opportunities include investing in sustainable value chains, distributing generation and energy access, waste and recycling, and agriculture and forestry. Green building opportunities alone represent the potential to reduce greenhouse gases by 4.5 million tons of carbon dioxide equivalent a year by 2020.

Our directors' performance is now more directly pegged to how successfully they can grow climate-smart business each year. Other international financial institutions, and the much larger private financial community, have shared many of the same ideas and approaches, sometimes building on IFC experience and practice and sometimes in partnership. Local financial institutions have channeled IFC funding to small clients that IFC cannot easily reach. As of March 2013, IFC invested $2.6 billion in 120 such projects in 35 countries for projects in energy efficiency, renewable energy generation, clean production, sustainable agriculture and green buildings. IFC continues to engage government and the private sector, cognizant that this challenge requires both government leadership and large-scale private sector action.

This publication offers insight into IFC's involvement in one of the biggest issues in development today and in the years to come.

IFC's pledge is that by FY2015, it will nearly double its climate business to over $3 billion.

Global Environmental Milestones

1987 — Montreal Protocol signed to protect the ozone layer.

1990 — First Intergovernmental Panel on Climate Change (IPCC) report on climate science.

1990 — Multilateral Ozone Fund established, first finance for global environment.

1992 — UN Conference on Environment and Development (Earth Summit) held in Rio; climate convention signed.

1994 — UN Framework Convention on Climate Change goes into effect.

1994 — Global Environment Facility (GEF) formalized following three-year pilot phase.

1997 — Kyoto Protocol to reduce greenhouse gases negotiated.

1998 — The warmest year on record to date globally, linked in part to an El Nino.

2001 — Least Developed Countries Fund and Special Climate Change Fund established at CoP-7.

2002 — World Summit on Sustainable Development held in Johannesburg on 10th anniversary of Rio.

2005 — Kyoto Protocol becomes international law.

2006 — Eight warmest years on record to date occur in past decade.

2007 — Adaptation Fund formally launched at CoP-13 to protect the poor from the effects of climate change.

2007 — Nobel Peace Prize awarded to IPCC and Al Gore for their climate change work.

2008 — Development banks create Climate Investment Funds and pledge $6.5 billion for mitigation and adaptation projects.

2008 — China surpasses the U.S. to become the world's biggest greenhouse gas emitter annually.

2012 — Rio+20 UN Conference on Sustainable Development held in Rio.

2012 — Average U.S. temperatures during first six months are the warmest since 1895; drought throughout the U.S.; heat waves in Europe.

IFC Milestones

1988 — First renewable energy investment: Shenzhen YK Solar PV Energy Co., China.

1995 — First IFC-GEF project: Poland Efficient Lighting Project.

1995 — SME Program for climate change mitigation initiated.

1998 — GEF project finances Grameen Shakti to develop renewable energy systems in Bangladesh.

1998 — Adopts environmental Safeguard Policies.

2002 — Environmental Opportunities Facility pilots investing in early stage clean technologies.

2002 — Carbon trading program initiated with donor support.

2005 — First Sustainability Report published, including chapter on climate change.

2006 — New Performance Standards adopted, require estimation of GHG emissions above 100,000 tons.

2007 — Earth Fund approved by GEF Council to encourage private sector access for environmental projects.

2007 — Cleaner Production Facility pilot launched for manufacturing investments.

2008 — GEF supports Clean Technology Fund for first-of-a-kind IFC projects.

2008 — Publishes IFC Road Map defining climate policy.

2009 — Carbon footprint estimate required for all new investments.

2009 — Climate Change Risk analysis program initiated.

2010 — Climate Business Group established to provide leadership and coordination on IFC climate policy.

2011 — EDGE program supports innovative approach to green buildings.

2011 — Clean Technology Innovation Facility created.

2012 — Policy established for blending climate finance with IFC investments.

2012 — Climate Change Risk Working Group established.

2012 — First concentrated solar power project in South Africa.

2013 — $1 Billion Green Bond issued for climate friendly projects in developing countries.

IFC's Initial Response to Climate Change

IFC began supporting business solutions to climate change in 1989; just a decade after the term was coined in a published report by the U.S. National Academy of Sciences. IFC was an early mover in clean energy investments around the world, providing seed capital to innovative clean technologies and renewable energy.

- **1989:** IFC makes its first investment in renewable energy (Shenzhen YK Solar PV Energy Company in China), which reduces carbon emissions in addition to other benefits.
- **1995:** The first IFC-Global Environment Facility (GEF) project launches the Poland Efficient Lighting Project, which promotes more efficient lighting products.
- **1998:** IFC adopts the Safeguard Policies, affirming its commitment to sustainability, including climate change, and actively seeks projects with a focus on a triple bottom line that takes into account people, planet, and profits.
- **1998:** PVMTI (solar business) project approved, marking the first non-grant use of GEF funds to support private commercial activity.
- **2001:** IFC engages in external political events associated with clean energy and climate change, starting with its involvement with the G8 Renewal Energy Task Force.
- **2002:** The Environmental Opportunities Facility provides funding for ventures with the strong potential to increase sustainability and produce new business models with environmental and social benefits.
- **2002:** IFC enters the carbon market through a partnership with the Government of the Netherlands: IFC manages carbon credit purchases worth $135 million from more than 40 projects.
- **2004:** The International Conference on Renewable Energies in Bonn, Germany, inspires targets for increased clean energy lending and creation of the first system within IFC for defining and reporting clean energy investments.
- **2005:** IFC's Performance Standards becomes the Sustainability Framework, mandating that climate change be considered in making investments.
- **2006:** A briefing for new IFC Executive Vice President Lars Thunell, who brings a strong interest in climate change and clean energy, includes three approaches for scaling up clean energy and climate change efforts.

IFC Increases Focus on Climate Change

Starting in 2006-2007, IFC increased its focus on climate change and broadened its participation from clean energy investments to developing plans that incorporated the relationship between climate change and development. IFC likewise reached out to the private sector, the business community, and governments to support climate change initiatives.

- **2007:** IFC highlights the importance of working with the private sector in the Action Plan prepared for the World Bank Group Board.
- **2007:** IFC participates in external discussions with the private sector and the business community about climate change, and provides input and analytical support to the climate negotiations of the UN Framework Convention on Climate Change.
- **2008:** A series of internal task force reports and management briefings results in a presentation on the "IFC Climate Change Strategy," which identifies investment targets and potential business opportunities. Pilot studies are initiated to investigate the potential financial impact of climate change on IFC's portfolio.
- **2008:** Board approves the creation of the Climate Investment Fund, providing substantial new donor support for concessional funding of clean energy projects.
- **2009:** IFC launches its carbon accounting activities, measuring gross greenhouse gas emissions from its investment activities.
- **2009:** IFC's Development Goals include climate change as a strategic focus. A stock-taking exercise assesses IFC's climate change activities and concludes that climate change and development are inextricably linked, and that IFC needs to review, refine, and retool its approach to climate change.

IFC Gives Increased Support to Climate Change as a Strategic Priority

In 2010, the Climate Business Group (now the Climate Business Department) was created, incorporating existing groups focused on metrics and carbon accounting, clean tech investing, and carbon trading. It also added one new team—the Strategy and Business Development Group—with industry sector specialists.

- **2010:** IFC creates the Climate Business Group (now the Climate Business Department) to give greater focus and coherence to the implementation of IFC's climate strategy.
- **2010:** IFC initiates discussions with the insurance industry about the potential use of insurance to give greater emphasis to risk management and loss avoidance due to climate vulnerabilities.
- **2010:** IFC issues its first green bond, the proceeds of which are for investing in renewable energy and climate-friendly projects in developing countries.
- **2011:** IFC launches the Post-2012 Carbon Facility to help address market uncertainty faced by climate-friendly projects eligible under the Kyoto Protocol's Clean Development Mechanism, which expires end 2012.
- **2012:** The IFC Performance Standards increase the role of climate change, with lower thresholds for CO_2 emissions and references to climate impacts and adaptation. IFC identifies its first adaptation project.
- **2012:** IFC's climate risk working group develops risk screening tools for investments; a pilot program to implement the group's proposal is approved by IFC management in March 2013.
- **2012:** IFC introduces the EDGE green building certification program.
- **2012:** IFC invests in sub-Saharan Africa's first concentrated solar power plants, utilizing donor funds to help reduce construction cost and the impact of solar power plant tariffs on electricity prices for South African consumers.
- **2013:** IFC issues a $1 billion green bond—the largest green bond issue to date—to support IFC climate-friendly projects in developing countries.

IFC at the Forefront of a Low Carbon Economy

IFC's response to climate change gives new meaning to our commitment to reduce poverty through private sector development. As the private sector arm of the World Bank Group, IFC is also an active partner in the design and implementation of new initiatives that respond to the threat of a much warmer world as reflected in the publication of "Turn Down the Heat", a review of what is known about the consequences of global warming of 4 degrees C or more.

IFC shall focus on four key areas:

- **Renewable Energy and Energy Access,** supporting "greening the grid" and providing access to clean energy for the 1.7 billion people without electricity and the nearly 3.5 billion who lack clean cooking fuels.
- **Energy Efficiency,** investing to help reduce energy use from buildings to industrial processes, agribusiness, and other key needs. This includes the **Green Buildings** program, which mainstreams sustainable housing and other construction in rapidly growing emerging markets through design assistance and investment.
- **Climate-Smart Innovation,** spurring innovation by channeling investment capital, including venture capital, and donor-supported blended concessional finance to climate-smart projects.
- **Adaptation,** by analyzing climate risks and providing investment capital to help clients understand and prepare for climate impacts on long-term investments.

The institution is in a strong position to address these challenges through its ability to demonstrate workable investment strategies, shape markets through regulatory and policy advice, and provide leadership to the donor and the international community. IFC's private sector experience in green growth and climate-related investment has been incorporated into the ongoing G-20 policy discussions to boost sustainable economic growth in the least developed countries.

The threats posed by climate change are real, increasing, and in many places, significant barriers to meeting development goals. Climate change affects the core of people's lives worldwide. As the world seeks to alleviate the impact of global climate change, IFC shall be there to utilize its resources to provide people with access to services they need to thrive.