Climate Change

IFC’s RESPONSE

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, across the investment and advisory lines of the Corporation, including Infrastructure and Natural Resources; Manufacturing, Agribusiness and Services; 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 investments, enabling 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

Text: Alan Miller, Principal Project Officer, Climate Business Department, IFC
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In 1992 at Rio de Janeiro, the international community adopted the first global mandatory and comprehensive agreement to combat climate change—the Protocol to the UN Framework Convention on Climate Change (UNFCCC). 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), responded to this international leadership challenge. IFC’s role was to transform the international development lending sector to one that is increasingly oriented towards supporting climate change solutions and mitigation. To do so, IFC took and adapted its existing corporate approach to investment to create the world’s largest environmental investment portfolio—now more directly pegged to how firms are reducing their greenhouse gas emissions.

Over $1.6 billion in the more recent years. Our Performance Standards now require consideration of climate change.

Where We Want to Be

If IFC can successfully mobilize capital and create new climate finance businesses to respond to the current and future needs of climate development, its climate business could nearly double IFC’s investment in clean energy and development goals. IFC’s involvement in one of the biggest challenges of our generation—addressing climate change—affected itself transformed in the experience.

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Over $3 billion.

Global Environmental Milestones

Global Environmental facility (GEF) formally established.

First IFC-GEF project: Roshni Solar Power Project.

New Performance Standards for generating renewable energy go into effect.

FSME Program for climate change mitigation initiatives.

First Concentrated Solar Power project in South Africa.

EFED project financed.

First Sustainability Bond issued.

First IFC-GEF project: Project for Efficient Lighting.

Newly formed UNFCCC’s Executive Board established.

First Regional Climate Investment Facility established.

First Intergovernmental Panel on Climate Change (IPCC) report published.

First Sustainability Report published, including climate change mitigation initiatives.

First Green Bond issued.

Global Environmental Footprint (GEF) formally established.

First concentrated solar power project in South Africa.

First Green Bond issued.

First Concentrated Solar Power project in South Africa.

First Intergovernmental Panel on Climate Change (IPCC) report published.

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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.
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.
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 CO₂ 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.