CDC
Investment works

Climate change policy

September 2014

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1. Policy objectives and background

1.1 Policy background

CDC's mission is to support the building of businesses throughout Africa and South Asia, to create jobs and to make a lasting difference to people's lives in some of the world's poorest places.

Climate change is a severe and growing near-term threat to poverty reduction and development in Africa and Asia and is affecting livelihoods, private sector businesses and economic growth. The impacts of climate change are complex and multifaceted, and manifest themselves through:

- changes in the availability and quality of natural resources;
- increased climate variability and volatility resulting in droughts, floods and storms;
- greater risks to the integrity, longevity and operational cost of physical infrastructure (particularly, roads, ports and water utilities); and
- increased health impacts and risks caused by the spread of diseases, heat induced health problems and malnutrition.

The UK government has highlighted the importance of this issue and its approach through its policy on reducing the impact of climate change in developing countries[1].

For developing countries, priority areas for investment include:

- Mitigating the effects of climate change through support to renewable energy provision; access to clean energy; energy efficiency in buildings, industry and transport; and reducing emissions from forest degradation and destruction (REDD).
- Adapting to the effects of climate change through support to climate resilient agriculture and water resources; and disaster risk management.

CDC recognises that the role of private sector investment in mitigating the impacts of climate change, and in financing climate friendly energy generation are extremely important in emerging markets. This is especially so for many of the countries that CDC invests in, and also in many of the industry sectors that CDC supports.

[1] UK Government Policy on reducing the impact of climate change in developing countries

1.2 Policy objective

This policy sets out CDC's overarching climate strategy. Its objective is to define climate change requirements for all investment proposals and specify focus areas for incremental investment. It also sets out how the policy will be implemented.

This policy should be read in conjunction with the CDC Investment Policy,[2] CDC Code of Responsible Investing[3] and the CDC Policy on Coal-Fired Power Generation[4].

1.3 Policy sponsor and maintenance

The COO is the sponsor of this policy and is responsible to review and maintain this policy and submit it to the Board every two years for review and approval. As this is an area of developing policy externally, it is anticipated that this policy will continue to develop over time.

2. Identifying climate factors in new investment proposals and seeking opportunities for incremental investment

CDC will proactively assess climate change risks and opportunities in its investments and will incorporate these factors into investment strategies and other internal documents and procedures. Some industry sectors (such as power generation) offer particular opportunities for investments that support a transition to a lower carbon economy and CDC will continue to invest in renewable energy projects, in line with the Investment Policy.

CDC will also continue to incorporate climate factors into the due diligence for investment proposals more broadly with a specific focus on assessing:

- Energy use efficiency, carbon intensity and on site specific renewable opportunities (i.e. solar, biomass, cogeneration etc.);
- Water use efficiency and water conservation measures; and
- Adaptation and resilience needs and opportunities, disaster risk management especially in large infrastructure projects vulnerable to climate related impacts.

Where opportunities are identified, CDC will seek to:

[2] CDC Investment Policy
[3] CDC Code of Responsible Investing
[4] CDC Coal-Fired Power Generation Policy

- provide financing for such measures;
- co-invest with alternative sources of financing for such measures; or
- leverage additional capital where possible.

3. Sector priorities

CDC has identified a range of industry sectors where it will direct investment in order to maximize the job creation potential of its capital,[5] within these sectors there are differing climate risks and opportunities. For illustrative purposes some of the issues to be considered within these sectors may include the following.

- Agri-busines:
  - Water resources (energy costs and impacts associated with pumping and accessing water; water use efficiency and effectiveness);
  - Disaster risk management (crop and livestock risks associated with increased climate variability (drought, flood), disease and pest risks and food security);
  - Energy efficiency; and
  - On-site renewables.

- Construction and real estate:
  - Energy efficiency;
  - Water use;
  - On-site renewables; and
  - Disaster risk management.

- Financial institutions:
  - Disaster risk management (insurance products);
  - Credit policies targeted at energy efficiency improvements;
  - Financial products for renewable technologies; and
  - Credit policies for water conservation and efficiency.

- Education and Health:
  - Energy efficiency (in buildings and equipment);
  - On-site renewables; and
  - Disaster risk management.

[5] http://www.cdcgroup.com/How-we-do-it/Investment_strategy/Investment-selection/

- Infrastructure (including renewables):
  - Energy efficiency;
  - Water conservation and efficiency;
  - Disaster risk management; and
  - On-site renewables.

- Manufacturing:
  - Energy efficiency;
  - Water efficiency;
  - Disaster risk management; and
  - On-site renewables.

4. Monitoring and reporting

For the first year, CDC will report on the implementation of this policy through the Annual Review.

Investment works

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