

# Policy on coal-fired power generation

*January 2014*



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## 1. Policy on coal-fired power generation

CDC's mission is to support the building of private sector 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.<sup>1</sup> CDC's energy investments focus on providing access to energy, accelerating energy efficiency gains and expanding renewables and energy networks.

CDC recognises that coal-fired thermal power<sup>2</sup> is a highly polluting source of power. The UK government has taken the lead internationally in its commitment to reducing poverty, supporting development and tackling climate change in emerging economies through investment in the energy sector whilst also contributing to the global move away from unabated coal-fired power generation. CDC therefore aligns its investment requirements in this sector with UK government strategy and the commitment of other multilateral and bilateral finance institutions to the extent possible,<sup>3</sup> and there is a strong presumption away from coal-fired thermal power except in rare circumstances.

CDC invests directly through debt and equity and also via investment funds. CDC needs to define practical and pragmatic approaches to investments given the range of influence available and financing provided. This Policy outlines CDC's approach to coal in each major investment product it provides.

## 2. Specific investment requirements for coal-fired thermal power transactions

### 2.1 Fund investments

There will be a presumption against funds, in which CDC's capital is committed, making investments in new or existing coal-fired thermal power production for the public grid unless, in each case, at least 90% of such generation is located in an Eligible Country<sup>4</sup>. In instances where a fund does make such an investment, the fund should make best efforts to effect the following: (i) a risk assessment for long term financial viability

<sup>1</sup> <http://www.cdccgroup.com>

<sup>2</sup> For the purposes of this Policy, coal-fired thermal power generation is the production of electricity using coal as the source of power. This includes dual-power projects where coal is one of the energy sources. The Policy also covers retrofitting or rehabilitation of existing coal-power facilities. The Policy does not extend to coal mining, processing, or trading, electricity distribution and transmission networks, or the use of coal as a source of heat to initiate chemical reactions (e.g. in the kiln of a cement plant).

<sup>3</sup> Including UK Government "Technical Guidelines for the UK Assessment of Coal-fired Power Projects Proposed by Multilateral Development Banks" (April 2013), World Bank Group Criteria for Screening Coal Projects under the Strategic Framework for Development and Climate Change (March 2010) and World Bank Towards a Sustainable Energy Future for All (July 2013).

<sup>4</sup>An "Eligible Country" is a country that is eligible for IDA lending (see <http://www.worldbank.org/ida/borrowing-countries.html>), and whose Gross National Income per capita is below \$1,945.

has been undertaken, (ii) the use of best available technology (including compliance with IFC Performance Standards) has been applied, (iii) a compelling case for development impact of the investment exists and (iv) best efforts have been made to increase energy efficiency and reduce GHG emissions (together, these considerations are the “Additional Considerations”, which are further discussed below).

## 2.2 Debt investments

**Direct Debt and Structured Finance:** CDC will not provide direct debt for new or existing coal-fired thermal power plants that generate electricity for the public grid unless such investment is Guideline Compliant.<sup>5</sup> For captive power production (i.e. on site generation for industrial processes such as steel production), where coal-fired power is a significant proportion<sup>6</sup> of project costs, CDC will invest only if either:

1. (i) the production of energy is in an Eligible Country and (ii) the Additional Considerations have been met; or
2. CDC capital is excluded from financing the coal-fired power aspects of the transaction.

**Financial Intermediaries (Banks and Similar Institutions):** Where CDC invests in banks or other Financial Intermediaries (FIs) and where CDC reasonably expects a significant proportion<sup>7</sup> of that FI’s funds to be used to fund coal-fired power for the public grid (based on the FI’s then current portfolio and future business strategy), the general presumption will be that CDC would seek a “carve out” to exclude CDC funds being used for any new coal-fired thermal power plants. In no event shall CDC make such an investment where the production of energy is not in an Eligible Country.

## 2.3 Direct equity investments

**Equity Positions in Specific Coal-Fired Thermal Power Projects:** CDC will not make direct equity investments in coal-fired thermal power projects delivering energy to the public grid unless such investment is Guideline Compliant.<sup>8</sup> For proposed captive power (i.e. on site generation for industrial processes such as

<sup>5</sup> An Investment is “Guideline Compliant” if it follows funding provided by a multilateral finance institution (MFI) whose investment in coal-fired thermal power (i) has met the UK Technical Guidelines for the Assessment of coal fired power projects and (ii) has been approved for financing by DFID or by the UK representative on the MFI’s Board

<sup>6</sup> “Significant proportion” represents >10% of project costs. For example if a steel or cement plant expands production, it would require additional power. If captive coal accounts for more than 10% of the total expansion costs, it would be classified as significant.

<sup>7</sup> For FI, “significant proportion” means that more than 10% of the FI’s current or predicted future loan portfolio is for coal-fired thermal power investments.

<sup>8</sup> See Note 5 above.

cement or steel) where the coal-fired thermal power is significant, CDC would require (i) production in an Eligible Country and (ii) that the Additional Considerations have been met.

### **Equity Positions in Utility and/or Corporate Entities that have Coal-Fired Thermal Power**

**Companies in their Portfolio:** For proposed investments in corporate entities where coal-fired thermal power projects to the public grid or captive power production represent a significant proportion<sup>6</sup> of existing investments, or might reasonably be predicted to be future investments, CDC will only invest if (a) the power production is in one or more Eligible Countries, (b) a compelling case for development impact of the investment exists, and (c) a plan is in place that provides (within a commercially appropriate timescale) for the following: (i) the completion of a risk assessment for long term financial viability, (ii) the application of best available technology (including compliance with IFC Performance Standards), and (iii) that best efforts have been made to increase energy efficiency and reduce GHG emissions (as each is outlined in the Additional Considerations below).

## **3. Retrofitting**

For purposes of this policy, all retrofitting projects will be treated in the same way (as to Policy applicability and requirements) as green-field power projects.

## **4. Additional considerations**

### *4.1 Assessment of Long-Term Financial Viability*

The assessment should transparently assess risks including variations in coal price, availability of coal, impact of climate change on water availability, ambient temperature and global carbon price.

### *4.2 Incorporation of best available technology for reducing GHG emissions*

Alternative technical solutions which would result in lower intensity GHG emissions and that are economically appropriate for the project should be assessed to ensure the project maximises efficiency and that proposed alternative technology solutions have been considered. A presumption will be made that all power generation units use at least super-critical technology. Indicators will include analysis of alternative technology options and the reasons recorded for disregarding these in the context of the project location.<sup>9</sup>

<sup>9</sup> This may mean that the technology sets a new improved standard for a particular country rather than internationally. For plants with a capacity of 400MW or greater, sub-critical boiler technology will not be considered the best available technology in any country.

Viable alternative low carbon energy sources should be considered and reasons documented as to why such energy sources are unfeasible. Data could include quantification of environmental externalities in the form of an assessment of net local GHG emissions in the project including SO<sub>x</sub>, NO<sub>x</sub> and particulate matter and assessment of incremental financial cost of alternative options relative to the proposed coal-fired energy project.

#### *4.3 Compliance with environmental and social standards and consideration of viable low carbon alternatives*

Coal-fired power generation projects will be classified as projects of high ESG risk. As a consequence, gaps against IFC Performance Standards and World Bank EHS Guidelines should be identified through appropriate due diligence by specialist consultants and action plans drawn up, as required, to address gaps. Consideration in all power projects will specifically be given to industry standards on CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>x</sub> emissions, as well as water demand.

#### *4.4 Demonstrated development impact of the investment*

A compelling developmental case for the investments must be demonstrated. Data might include expected job creation, economic growth, poverty reduction or increase in access to energy from a baseline value and/or the expected improvement in system reliability.

**This policy applies from 1 January 2014 and is applicable to CDC commitments made after such date.**



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