

# IDC's climate change inquiry ahead of COP - submission by CDC Group, the UK's development finance institution.

- 1 **CDC is the UK's Development Finance Institution (DFI). DFIs invest in private sector businesses, banks and projects in developing countries** to bring about positive economic, social and environmental change. DFIs take a greater commercial risk on their investments than private sector investors to support businesses or sectors that can have a positive development impact. We're a publicly owned organisation and reinvest the profits made from successful investments into new impactful investments.
- 2 **Our submission primarily responds to areas one<sup>1</sup> and three<sup>2</sup> of the International Development Committee's call for evidence** covering action on climate finance by government and government-owned bodies; and the relationship between climate change and the Sustainable Development Goals (SDGs), respectively.
- 3 **Climate change is the most important development challenge that faces this generation. It could push 100m people back into poverty in just over ten years.** Recognising this, the Least Developed Countries have consistently called for action to meet the 1.5-degree Celsius temperature goal, both in the Paris Agreement in 2015, and again in 2019, when they outlined their Net Zero 2050 ambition. This means we need to support new development pathways that deliver economic growth and improved living standards, as well as emission reductions and strengthened climate resilience.
- 4 **We have been pioneering investment in climate finance including making over \$1bn of climate finance commitments in Africa and South Asia since 2017.**
  - **Ayana**, one of India's fastest growing renewable energy companies, was created entirely by CDC. For two years, dedicated teams within CDC planned, incubated and then launched the company. Since then we have ambitiously grown the company including bringing in other investors such as the National Investment and Infrastructure Fund of India. Ayana already produces 1.4gigwatts of power, reducing CO2 emissions by 3.3m tonnes pa while supplying electricity to 750,000 customers and creating over 10,000 jobs – with the ambition to grow significantly.
  - In Pakistan we have made a series of investments in **wind projects** that are part of a programme to increase the renewable energy generation capacity of the country by 50%. Taken together the programme aims to avoid emissions equivalent to those of 130,000 people a year, add \$19.1m to the country's GDP and support the creation of 6,260 indirect jobs.
  - Since 2015 we have supported the growth of **Miro Forestry**, a sustainable forestry and timber business in Ghana and Sierra Leone. The company has already planted 5 million trees resulting in significant carbon sequestration and creating employment for 2,000 people. It aims to plant up to c. 25,000 hectares of forests to become the largest sustainable integrated forestry business in West Africa. Miro is Forestry Stewardship Council approved and its work is helping to reduce pressure on natural forests and protect ecosystems and livelihoods, by sustainably meeting Africa's growing demand for wood.
- 5 **Alongside generating energy at scale, we have been backing off-grid innovations that get green energy to the hardest to reach areas.**
  - Over 600m people across Africa lack access to electricity, and for many, because they live outside cities and in remote or rural areas, they are unlikely to be connected to an electricity grid soon. To tackle this problem, since 2015 we have been supporting the growth of the off-grid solar sector to help bring the benefits of clean, reliable energy to

<sup>1</sup> The extent to which the Government has made progress on implementing the Committee's recommendations, particularly those on climate finance, climate justice, the use of ODA to support fossil fuels and making climate change a strategic priority in all aid spending.

<sup>2</sup> The extent to which the Government's work to date on climate change and development has taken the sustainable development goals and the needs of low-to-middle income countries and vulnerable groups into account.

those without electricity. This has included launching an initiative to provide working local currency debt financing which has been a particular challenge to the growth of the sector.

- In research conducted on the impact of off-grid solutions, 88% of customers reported that their quality of life had improved thanks to the off-grid product or service. One fifth of customers reported using their off-grid products for income-generating activities, including kiosks, shops and restaurants.
- Examples of our off-grid solar investments include:
  - **M-Kopa** which provides 90 million hours of kerosene free lighting per month across East Africa, saving an estimated 1.7m tonnes of CO<sub>2</sub> - equivalent to shutting down a coal-fired power plant for 150 days.
  - **Greenlight Planet** provides energy access to 11.2m people through pay as you go solar, 80% of who are rural customers, saving an estimated 735,000 tonnes of CO<sub>2</sub> emissions in 2020.
- **As well as off-grid solar, we've also supported the growth of mini-grid solutions.** In 2016 we invested in **Virunga Power** which provides hydro-electronic power to Eastern DRC. At that time, only 3% of people had electricity compared to 17% nationally, and local industry and households used expensive and polluting diesel or charcoal from trees illegally felled in Virunga National Park. Our investment has helped provide reliable, renewable power for 14,000 customers and assisted with the conservation work of the National Park.

## 6 **Our climate agenda is broader than providing green energy - we look for investees who are using green technologies alongside new business models that can help accelerate the transition and adapt to new climate challenges:**

- **14Trees**, a CDC joint venture, has pioneered an alternative to clay-burnt brick, saving on average 55 tonnes of carbon dioxide and 14 trees for every house built. They are now pioneering the 3D printing technology at scale to build affordable and low-carbon housing and schools in Africa, starting in Malawi. This technology will reduce the carbon footprint for building new homes by up to 70%.
- Our investee **CropIn** is using AI, satellite images and machine learning to monitor crop health and make yield predictions, passing on valuable insights to farmers who, armed with the right information, are better equipped to deal with the effects of climate change.
- Increasing resource efficiency, creating greener buildings and reducing water usage is important to us. With our support, **Roserve**, a wastewater treatment and recycling company, is on track to save at least 25m litres of water a day in India and is expanding into sub-Saharan Africa.
- We're also encouraging existing portfolio companies to apply nature-based solutions to climate risks. This includes **Zephyr Power's** mangrove protection and rehabilitation programme which is estimated to save up to \$7m in maintenance, while doubling the income of local communities.

## 7 **Our ambitions for climate investments are supported by our ambitious Climate Change Strategy.**<sup>3</sup> The strategy is based on the understanding that addressing the climate emergency requires transformation across all sectors and economies and therefore integrating climate change into every investment we make. It outlines our approach to Paris Alignment at portfolio and transaction level. This approach is made up of three building blocks which align our activities and investments with the goals of the Paris Agreement:

- **Net zero by 2050:** investing for a net zero world because investment decisions today affect emissions tomorrow. We have a dual approach to net zero: at portfolio level (by committing for our investment portfolio to have net zero financed emissions by 2050); and at transaction level (by assessing individual transactions for their alignment with a country's pathway to net zero by 2050).
- **Just transition:** supporting a 'just transition' to a net zero economy by ensuring the creation of decent jobs and importance of upskilling are at the forefront of the change.

<sup>3</sup> CDC's Climate Change Strategy is available here: <https://www.cdcgroup.com/en/climate-change-strategy/>

- **Adaptation and resilience:** strengthening adaptation and resilience of sectors, communities, businesses and people to the effects of climate change. Recently, G7 Foreign and Development Ministers called for increasing private finance for adaptation and resilience. The Communiqué welcomes the DFI+ Adaptation and Resilience Collaborative led by CDC and new commitments for working together to accelerate investment in adaptation and resilience.
- 8 **The strategy is aligned to the pillars of the Task Force on Climate-related Financial Disclosures (TCFD)**, the main international framework for integrating climate change opportunities and risks into the management systems of financial institutions and businesses.
  - 9 **In developing the strategy we have considered how we can support the best chance of achieving the SDGs and meeting the goals of Paris agreement.** 50% of sub-Saharan Africa's population – 600m people - have no access to power. This lack of access to power has a profound personal and economic impact. At the same time, we recognise the world faces a climate emergency to prevent global warming which will hit those people the hardest. To achieve the SDGs, we must get power to them in a way that supports their pathway to net zero.
  - 10 **Renewables are our priority (see para 4-6)** but, in the geographies where renewables are not yet the complete solution for reliable baseload power, gas can play an important transitional role in certain, but not all, circumstances. In the past, many climate considerations stopped at assessing relative emissions, in other words whether a project represents an incremental improvement, for example by moving from a higher carbon source to a lower carbon source. While that is an important factor, we think that is not sufficient for Paris Alignment given the limits of the remaining global carbon budget, so in addition, we would assess the role of gas power in a country's path towards net zero by 2050.
  - 11 **Any gas power investment therefore needs to demonstrate that it facilitates the transition to net zero and demonstrate it is not at risk of stranding assets.** The policy is aligned to HMG's and we would only consider a gas power investment if it met our stringent criteria as set out in our Gas Guidance.<sup>4</sup> Instead of assuming that all gas power projects are automatically transitional (because they are less emitting than higher carbon source such as coal), we consider whether a specific gas plant can be considered transitional in a specific country context. It therefore requires assessment of system and asset level indicators, in addition to a strong development impact case and manageable transition risks.
  - 12 **COP26 in November presents an opportunity to bring climate to the top of the international agenda.** As the host, the UK can be at the centre of this by convening new partnerships and collaborative efforts. As the UK's DFI, we are committed to playing our part by working with DFIs in the months ahead to agree even more ambitious climate action plans. Part of this includes our work with the Adaptation and Resilience (A&R) Collaborative. The joint initiative with other leading DFIs aims to accelerate investment in A&R by:
    - increasing understanding and developing a common methodological approach for identifying eligible investments;
    - working towards ensuring all investments are resilient to climate risks;
    - increasing support to shape markets and the pipeline for A&R investments; and
    - seeking deeper collaboration for enhanced private sector finance mobilisation.

<sup>4</sup> CDC's Fossil Fuel Policy and Gas Guidance available here: <https://www.cdcgroup.com/en/news-insight/news/announcing-our-new-fossil-fuel-policy-and-guidance-on-natural-gas-power-plants/>