1. Background

IFU, the Danish state-owned Development Finance Institution (DFI), provides equity, loans and guarantees on commercial terms to private sector investments in developing countries. IFU's objective is to promote investments which support sustainable development in developing countries in its three dimensions – economic, social and environmental – in a balanced and integrated manner and contribute to the realisation of the UN Sustainable Development Goals (SDGs).

This Climate Policy is part of IFU's sustainability policy framework that guides IFU's efforts towards supporting global sustainable development. IFU's Sustainability Policy is the overall policy document, whereas the underlying thematic policies clarify IFU's commitment in relation to major global sustainability issues. This Climate Policy further explains how IFU approaches climate issues and implements responsible business conduct measures.

2. Objective of the Climate Policy

With this Climate Policy IFU aims at being at the forefront when it comes to mobilising climate-relevant private investments to support developing countries' transformation to low-carbon and climate-resilient pathways by leveraging substantial financing to mitigation and adaptation projects.

IFU will adopt an investment approach that is aligned with the objective of the Paris Agreement. The agreement includes a call for the parties to limit temperature increase by **mitigation**, to increase climate resilience and to reduce vulnerability by **adaptation**. IFU will contribute to the transformational changes that the 1.5 °C pathway of the Paris Agreement entails over the coming years, making its investment flows consistent with a pathway towards zero greenhouse gas (GHG) emissions and climate-resilient development.

IFU aims to increase its share of climate-relevant projects, as defined by the multinational development banks[1], in its investment portfolio. Climate-relevant project are for instance renewable energy, energy efficiency and climate adaptation/resilience projects. A list of climate-relevant projects is attached (Annex II). By 2030, IFU aims to increase the climate-relevant part of its portfolio to at least 40 per cent of the total investment volume.

3. The operationalisation of the Climate Policy

At due diligence, IFU will consider direct emissions from production at company facilities (GHG protocol scope 1), indirect emissions from purchased electricity used for operation of machines, lighting, heating and cooling (GHG protocol scope 2), and other emissions from the supply chain, products, services and transportation in the full life cycle (GHG protocol scope 3), whenever this is practically feasible. In its dialogue with project developers, IFU will promote low-carbon intensity and climate-friendly technologies.

[1] Joint Multilateral Development Bank report on climate-related finance, June 2018, Annex A.C.1.

IFU will assess the climate impacts of its investments, including the GHG emissions they cause, but also make more systematic assessments of impacts of climate change on its investments. This is done with a view to lowering possible short, medium and long-term risks to the investments, as well as identifying climate change resilient technologies and adaptation measures to be put in place as part of the investment.

IFU will promote renewable energy investments and investments in greener technologies.

From 2020, IFU will no longer make new investments in fossil fuel based power production to the grid.

In a transition period until 2023, IFU can invest in transitional hybrid technologies for power production to the grid, if strong development impact criteria are met. Aligned with the Paris Agreement such criteria could be that the investment is in a low-income country, and it is in accordance with the country's national long-term energy plans (National Determined Contributions), and that it meets an acute energy need or secures broader access to energy.

Transitional technologies could be **natural gas** in a hybrid combination with renewables, which would then be established with due attention to avoiding longer-term lock-in of fossil fuels. Using natural gas in combination with other technologies could be considered to allow for a more reliable and smoother transition to greener technologies.

IFU will seek to identify commercial investment opportunities within climate adaptation. This will be done by identifying the climate vulnerability context of an investment and include a statement of intent to reduce vulnerability when feasible. IFU will establish a clear link between the investment activities and adaptation objectives in accordance with international practice[2].

In addition, IFU will seek to offset carbon-emitting investments by combining them with renewable energy and carbon sequestering components such as forestry projects in order to be on a path to carbon neutrality at project level.

4. Accounting and reporting on the Climate Policy

How exactly to align with the Paris Agreement is still being explored by Development Finance Institutions, and as part of this effort, IFU will develop ways to improve the tracking of its performance. In order to do so, IFU will assess the carbon footprint of its entire investment portfolio[3] against objectives of emission reduction as well as increased climate change resilience.

For practical purposes, IFU will assess absolute emissions at individual investment level for all projects above DKK 25 million in the portfolio with an expected significant emission level above 10,000 tonnes CO_2 equivalents per year during the lifetime of the project.

[2] Joint Multilateral Development Bank report on climate-related finance, June 2018
and the OECD DAC Rio Markers for climate handbook 2010

[3] **Investment portfolio** means - unless specifically stated otherwise - the portfolio of investments above DKK 25m in contracted amount and expected emissions/avoided emissions above 10,000 tonnes CO_2 per year per project during the lifetime of the project in all funds managed by IFU.

For these investments IFU will assess the GHG emissions of investments (before the investment is initiated (ex-ante) and make a similar assessment when the investment is exited (ex-post). IFU will report on energy use and the actual and avoided emissions on an annual basis through information collected with IFU's **Annual Sustainability Report**.

IFU will account and report publicly in line with the reporting procedures described in IFU's Sustainability Policy and operational procedures. From 2020, IFU will report on the alignment of IFU's portfolio of investments with the Paris Agreement pathway and the 2030 Agenda, including reporting on climate mitigation and adaptation investment flows. In order to do so, and linked to the GHG emissions, IFU will continue to track SDG indicators relevant to climate change.

Principles for estimating and reporting IFU's share of GHG absolute emissions and/or avoided emissions will be established and contributions from individual investments reported in line with international DFI practice.

When evaluating the impacts of investments on climate change and the SDGs, IFU will also assess the transformational change potential of individual investments above DKK 25 million to identify investments that create large-scale broad development impacts that are sustained over time, aligned with the global goals and balancing climate considerations and sustainable development.

With the ambition to become a key Danish climate financing instrument and one of the leading DFIs on the way to a global carbon neutral society, IFU will over the next two years develop its internal tools and procedures further and align with international developments within climate financing.

5. Approval and revisions

The Climate Policy takes effect on 1 January 2020. The Policy will be reviewed by IFU's Board of Directors on an annual basis in accordance with IFU's Rules of Procedure.

Approved by IFU's board of directors on 31 October 2019.

Annex I: Definitions

Greenhouse Gas Protocol emission scope 1-3[4]:

Scope 1: Direct GHG emissions. Direct GHG emissions occur from sources that are owned or controlled by the company, e.g. emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc. and emissions from chemical production in owned or controlled process equipment.

Scope 2: Electricity indirect GHG emissions. Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organizational boundary of the company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3: Other indirect GHG emissions. Scope 3 is an optional reporting category that allows for the treatment of all other indirect emissions. Scope 3 emissions are a consequence of the activities of the company but occur from sources not owned or controlled by the company. Examples of scope 3 activities are extraction and production of purchased materials, transportation of purchased fuels, and use of sold products and services.

Absolute emissions: The estimated emissions generated or sequestered as a result of an investment.

Avoided emissions: The emissions avoided as a result of an investment when compared to a baseline scenario.

Baseline scenario: A scenario without changing current emission practise (business as usual).

Carbon footprint: The total absolute GHG emissions generated or sequestered by an individual, event, organisation or product, expressed as CO_2 equivalent
Carbon intensity: The *emission* rate of a given pollutant relative to the *intensity* of a specific activity or an industrial production process.
Carbon neutrality: Having a net zero carbon footprint, refers to achieving net GHG (absolute) emissions by balancing generated emissions with emission sequestered (often through offsetting) or simply eliminating GHG emissions altogether (the transition to a "post-carbon economy").
Carbon off-setting: Schemes that allow individuals or companies to invest in environmental projects around the world in order to balance out their own carbon footprints

Transformational change: A fundamental, sustained change of a system that disrupts established high-carbon practices and contributes to a zero carbon society in line with the Paris Agreement and the UN Sustainable Development Goals. In the context of a financial institution, an investment with a transformational change potential is seen as an investment contributing to systemic changes that result in greenhouse gas reductions and broader sustainable development impacts, which are large in scale and sustained over time. Examples of such projects are projects that pioneer power purchase agreements for renewables, test the national legal framework, etc.

[4] As defined by the Greenhouse Protocol Corporate Accounting and Reporting Standard, 2015.

Annex II

Climate-related projects as defined by the Joint Multilateral Development Bank report on climate-related finance, June 2018.

Table A.C.1. List of activities eligible for classification as climate mitigation finance

Category	Sub-category	Eligible activities
1. Renewable energy	1.1. Electricity generation	Wind power
		Geothermal power (only if net emission reductions can be demonstrated)
		Solar power (concentrated solar power, photovoltaic power)
		Biomass or biogas power (only if they result in net reductions in emissions, taking into account production, processing and transportation)
		Ocean power (wave, tidal, ocean currents, salt gradient, and so on)
		Hydropower plants (only if net emission reductions can be demonstrated)
		Renewable energy power plant retrofits
	1.2. Heat production or other renewable energy application	Solar water heating and other thermal applications of solar power in all sectors
		Thermal applications of geothermal power in all sectors
		Wind-driven pumping systems or similar applications
		Thermal applications of sustainably produced bioenergy in all sectors
	1.3. Measures to facilitate integration of renewable energy into grids	New, expanded and improved transmission systems (lines, substations)
		Storage systems (battery, mechanical, pumped storage) that facilitate integration of renewables, or increase renewable energy production
		New information and communication technology, smart grid and mini grid
2. Lower-carbon and efficient energy generation	2.1. Transmission and distribution systems	Retrofit of transmission lines or substations and/or distribution systems to reduce energy use and/or technical losses including improving grid stability or reliability (in the case of capacity expansion, only the portion of the investment that is reducing existing losses is included)
	2.2. Power plants	Thermal power plant retrofit to switch from a more GHG-intensive fuel to a different and less GHG-intensive fuel type[13]
		Conversion of existing fossil-fuel-based power plant to co-generation[14] technologies that generate electricity in addition to providing heating or cooling
		Energy efficiency improvement in existing thermal power plant

(Continued overleaf)

[13] Excluding replacement of coal by coal.
[14] In all co-generation projects energy efficiency is required to be substantially higher than separate production of electricity and heat.

Table A.C.1. List of activities eligible for classification as climate mitigation finance *(continued)*

Category	Sub-category	Eligible activities
3. Energy efficiency[15]	3.1. Energy efficiency in industry in existing facilities	Industrial energy efficiency improvements though the installation of more efficient equipment, changes in processes, reduction of heat losses and/or increased waste-heat recovery and/or resource efficiency[16]
		Installation of co-generation plants that generate electricity in addition to providing heating or cooling
		Replacement of an older facility (old facility retired) with a more efficient facility
	3.2. Energy efficiency improvements in existing commercial, public and residential buildings	Energy efficiency improvement in lighting, appliances and equipment, including energy-management systems.
		Substitution of existing heating or cooling systems for buildings by co-generation plants that generate electricity in addition to providing heating or cooling[17]
		Retrofit of existing buildings: architectural or building changes that enable reduction of energy consumption
	3.3. Energy efficiency improvements in the utility sector and public services	Energy efficiency improvement in utilities and public services through the installation of more efficient lighting or equipment
		Rehabilitation of district heating and cooling systems
		Reduction of heat loss in utilities and/or increased recovery of waste heat
		Improvement in utility-scale energy efficiency through efficient energy use and loss reduction, or resource efficiency[18] improvements
	3.4. Vehicle fleet energy efficiency and low-carbon fuels	Existing vehicle, rail or boat fleet retrofit or replacement (including the use of lower-carbon fuels, electric or hydrogen technologies), or new vehicle, rail or boat fleets with ultra-low carbon emissions, exceeding available standards.
	3.5. Energy efficiency in new commercial, public and residential buildings	Use of highly efficient architectural designs, energy-efficient appliances and equipment, and building techniques that reduce the energy consumption of buildings, exceeding available standards and complying with high energy efficiency certification or rating schemes
	3.6. Energy audits	Energy audits of energy end-users, including industries, buildings and transport systems
4. Agriculture, aquaculture, forestry and land-use	4.1. Agriculture	Reduction in energy use in traction (such as efficient tillage), irrigation and other agricultural processes
		Agricultural projects that improve existing carbon pools (such as rangeland management, collection and use of bagasse, rice husks or other agricultural waste, reduced tillage techniques that increase carbon content of soil, rehabilitation of degraded lands, peatland restoration, and so on)
		Reduction of non-CO_2 GHG emissions from agricultural practices and technologies (for example, paddy rice production, reduction in fertiliser use)
		Resource efficiency[19] in agricultural processes and supply chains
	4.2. Afforestation and reforestation and biosphere conservation	Afforestation (plantations) and agroforestry on non-forested land
		Reforestation on previously forested land
		Sustainable forest management activities that increase carbon stocks or reduce the impact of forestry activities
		Biosphere conservation and restoration projects (including payments for ecosystem services) seeking to reduce emissions from the deforestation or degradation of ecosystems
	4.3. Livestock	Livestock projects that reduce methane or other GHG emissions (for example, manure management with biodigesters, and improved feeding practices to reduce methane emissions)
	4.4. Biofuels	Production of biofuels, including biodiesel and bioethanol (only if net emission reductions can be demonstrated)
	4.5. Aquaculture	Reduction in energy use or resource efficiency in aquaculture[20]

(Continued overleaf)

[15] The general principle for brownfield energy efficiency activities involving the substitution of technologies or processes is that: (i) the old technologies are replaced well before the end of their lifetime and the new technologies are substantially more efficient; or (ii) new technologies or processes are substantially more efficient than those normally used in greenfield projects.
[16] The general principle for resource efficiency activities is that activities are substantially more efficient than replaced technologies or processes, noting that efficiencies and avoided emissions may occur upstream or downstream of the project.
[17] Refer to footnote 15.
[18] Refer to footnote 16.
[19] Refer to footnote 16.

Table A.C.1. List of activities eligible for classification as climate mitigation finance *(continued)*

Category	Sub-category	Eligible activities
5. Non-energy GHG reductions	5.1. Fugitive emissions	Reduction of gas flaring or methane fugitive emissions in the oil and gas industry
		Coal-mine methane capture
	5.2. Carbon capture and storage	Projects for carbon capture and storage technology that prevent the release of large quantities of CO_2 into the atmosphere from fossil fuel use in power generation, and process emissions in other industries
	5.3. Air conditioning and refrigeration	Retrofit of existing industrial, commercial and residential infrastructure to switch to cooling agent with lower potential for global warming
	5.4. Industrial processes	Reduction in GHG emissions resulting from industrial process improvements and cleaner production (for example, of cement or chemicals), excluding carbon capture and storage
6. Waste and wastewater	6.1. Wastewater	Treatment of wastewater, including wastewater collection networks, that reduces GHG emissions (only if substantial net GHG emission reductions can be demonstrated)
	6.2. Solid waste management	Waste management projects that capture or combust methane emissions
		Waste-to-energy projects
		Waste collection, recycling and management projects that recover or reuse materials and waste as inputs into new products or as a resource (only if net emission reductions can be demonstrated)
7. Transport[21]	7.1. Urban transport modal change	Urban mass transit
		Non-motorised transport (bicycles and pedestrian mobility)
	7.2. Transport-oriented urban development	Integration of transport and urban development planning (dense development, multiple land-use, walking communities, transit connectivity, and so on), leading to a reduction in the use of passenger cars
		Transport and travel demand-management measures dedicated to reducing pollutant emissions, including GHG emissions (such as high-occupancy vehicle lanes, congestion charging or road pricing, parking management, restriction or auctioning of licence plates, car-free city areas, low-emission zones)[22]
	7.3. Inter-urban transport	Railway transport ensuring a modal shift of freight and/or passenger transport from road or air to rail (improvement of existing lines or construction of new lines)
		Waterway transport ensuring a modal shift of freight and/or passenger transport from road or air to waterways (improvement of existing infrastructure or construction of new infrastructure)
		Bus passenger public transport ensuring a modal shift from a higher-carbon mode of transport
	7.4. Infrastructure for low-carbon and efficient transport	Charging stations and other infrastructure for electric vehicles, hydrogen or dedicated biofuel fuelling
		Digital solutions and programmes dedicated to reducing GHG emissions[23]
8. Low-carbon technologies	8.1. Products or equipment	Projects producing components, equipment or infrastructure dedicated to the renewable and energy efficiency sectors, or low-carbon technologies
	8.2. Research and development	Research and development of renewable-energy or energy-efficiency technologies, or low-carbon technologies

(Continued overleaf)

[21] Modal shift includes prevention of future shifts to high-carbon modes.
[22] General traffic management is not included. This category is for demand management to reduce GHG emissions, assessed on a case-by-case basis.
[23] Dedicated measures can mean that a proportional approach may be used to take account of the fact that reduction of GHG emissions may be one of several project objectives.

Table A.C.1. List of activities eligible for classification as climate mitigation finance *(continued)*

Category	Sub-category	Eligible activities
9. Cross-cutting issues	9.1. Support for national, regional or local policy, through technical assistance or policy lending	National, sectoral or territorial policies/planning/action plans/planning/ institutions dedicated to mitigation such as NDCs, NAMAs and plans for scaling up renewable energy
		Energy sector policies and regulations leading to climate change mitigation or the mainstreaming of climate action, such as energy efficiency standards or certification schemes; energy efficiency procurement schemes; renewable energy policies, power market reforms to enable renewable energy
		Systems for monitoring the emission of greenhouse gases
		Efficient pricing of fuels and electricity (such as subsidy rationalisation, efficient end-user tariffs, and efficient regulations on electricity generation, transmission or distribution, and on carbon pricing)
		Education, training, capacity-building and awareness-raising on climate change mitigation or sustainable energy or sustainable transport; mitigation research
		Other policy and regulatory activities, including those in non-energy sectors, leading to climate change mitigation or mainstreaming of climate action, such as fiscal incentives for low-carbon vehicles, sustainable afforestation standards
	9.2. Carbon finance	Carbon markets and finance (purchase, sale, trading, financing and other technical assistance); includes all activities related to compliance-grade carbon assets and mechanisms
	9.3. Supply chain	Measures in existing supply chains dedicated to improvements in energy efficiency or resource efficiency[24] upstream or downstream, leading to an overall reduction in GHG emissions
10. Miscellaneous	10.1. Other activities with net greenhouse-gas reduction	Any other activity if agreed by MDBs may be counted as climate mitigation finance when the results of *ex-ante* GHG accounting (undertaken according to commonly agreed methodologies) show emission reductions that are higher than a commonly agreed threshold, and the project consistent with a pathway towards development characterised by low GHG emissions.