

## Finland–IFC Blended Finance for Climate Program – Questions and Answers:

### 1. Why does Finland pursue cooperation with the IFC?

The IFC is the world's leading, most experienced private sector development financier and has AAA credit rating. The IFC was chosen as the implementer of the fund programme because the Ministry for Foreign Affairs seeks to make financial investments within the context of Finland's development policy as responsibly as possible, considering that specific return and recovery expectations have also been set for the investments.

The fund programme is in line with the development policy report approved in 2016. One of the goals in the report is to strengthen and diversify the private sector in developing countries. In the Paris climate negotiations, Finland promised to channel a significant amount of its financial investments to climate actions. The IFC is one of the most important climate financiers. In the financial year 2016, its long-term climate financing amounted to USD two billion. In addition, the IFC's advisory services enabled investment of USD 1.3 billion in climate work.

### 2. How will Finland monitor the investments?

The IFC will provide the Ministry for Foreign Affairs with an annual report on the programme's investments and development impacts. The outcome of the programme will be monitored using the IFC's *Development Outcome Tracking System (DOTS)*, which allows tracking several indicators, such as the number of jobs created, decrease of carbon dioxide emissions, tax revenue, and the number of funded SMEs. In addition, the IFC and the Ministry for Foreign Affairs will hold annual discussions about the progress made in the programme.

### 3. How is it ensured that the investments are directed to the poorest countries?

According to the classification of the OECD's Development Assistance Committee (DAC), the primary target group of the programme comprises the least developed countries, other lower income countries and lower middle income countries. Investments in higher middle income countries can be proposed in exceptional cases and only if the anticipated development impacts are highly beneficial. Even in that case, the project can only be funded through under a separate decision made by the Ministry for Foreign Affairs. An annual public report is prepared of trends in the programme's investment portfolio and of its development impacts.

### 4. How does the IFC look after responsibility in the projects?

For assessing responsibility, the IFC is using a set of *Performance Standards* approved in 2012. For several years now, the IFC has already been the market leader and forerunner in the management of risks related to the environment and society.

The IFC carefully evaluates the reputation of its possible corporate customers in order to ensure that IFC-funded projects can be implemented as responsibly as possible. The IFC can only invest in companies, intermediate companies and funds registered in countries that fulfill the gradually

tightening requirements of the OECD's Global Forum, which promotes the transparency of tax systems. The IFC requires that the background of the companies it funds is properly and carefully investigated and that their business operations are legal and not planned with the aim of avoiding taxes. The IFC also requires that companies provide information on their actual beneficiaries.

The IFC has increased its cooperation with associations and regulation authorities engaged in the international funding sector in order to promote the use of sustainable environmental and social norms in the funding sector. Furthermore, it has focused more on applying its performance standards in the project evaluation and follow-up phase.

**5. What types of projects have been funded in other countries using a corresponding model and what kinds of results have been achieved?**

Among other things, the climate fund programme between Canada and the IFC has funded hydroelectric power in Nepal, solar energy in India, waste management in Nepal and Uganda, and energy efficiency projects in Bangladesh. It has been estimated that the programme will reduce total emissions by 750,000 CO<sub>2</sub> tonnes a year, which equals the annual carbon dioxide emissions of approximately 160,000 cars.

**6. What does the IFC cooperation mean for Finnish companies?**

Climate projects supported through Finnish funding will be selected based on the climate classification defined by the IFC. The selection process emphasizes sectors in which Finland has expertise and competence, such as energy efficiency, renewable energy, sustainable forestry and land use, meteorology, and water and wastewater solutions. This way the programme offers Finnish companies and other players opportunities to cooperate with the world's largest private sector development financier. The IFC seeks to continue and further deepen its cooperation with the Finfund. However, the participation of Finnish companies is not a precondition for project funding, i.e. the question is not of a tied form of support.

**7. Why is private sector funding needed in developing countries in order to reach the climate goals?**

It has been estimated that reaching the sustainability goals set in Agenda 2030 will cost EUR 12 billion every year. Donated aid is not enough to cover the sum. In fact, it is stated in Agenda 2030 that one of the key purposes of public development aid is to mobilize other money flows, both private and public. With operations supported through investments and loans, climate and development funding can be considerably increased. At best the money can also yield interest when the investments yield profit and can be used over and over again. Private companies can offer new technologies and solutions, and supporting and deploying these will be an important step to a cleaner, low carbon economy. This is also in line with one of the goals of the Paris Climate Agreement: to shape all funding flows towards a more environmentally friendly direction.

The lack of energy in the poorest countries is one of the most prominent barriers to development. Energy investments involve quite capital-intensive, long-term projects, for which donated aid is often not the best or sufficient source of funding. Through the Finland–IFC climate programme, it is possible to target the sector with long-term loan and investment based funding that supports climate goals.

**8. How will the new investment fund programme affect the total amount of Finland’s climate funding?**

This will be the largest funding ever directed to international climate work in Finland. The IFC investment roughly corresponds to the total public climate funding allocated to developing countries in Finland in 2015.