

SIFEM's Climate Approach

Approved by the Board of Directors on 13 April 2023

The SIFEM Climate Approach outlines the principles defined by SIFEM to address the urgent need for climate action, in alignment with Switzerland's International Cooperation Strategy 2021-24, SIFEM's Strategic Objectives 2021-2024 set by the Swiss government, and SIFEM's Approach to Responsible Investment.¹ This Climate Approach works toward the goals of the Paris Climate Convention (Paris Agreement) and the goals of the UN 2030 Sustainable Development Agenda.

SIFEM contributes to inclusive, low-carbon economic growth and sustainable development in emerging markets with a focus on promoting economic opportunities and decent jobs. Therefore, SIFEM invests and mobilizes funds for climate change mitigation and adaptation, but always within its priority to support economic resilience in developing markets, thereby facilitating a 'Just Transition'.²

SIFEM also works towards harmonization with other development finance institutions (DFIs) in its climate commitments. As a member of the Association of European Development Finance Institutions (EDFI), SIFEM endorses the EDFI Statement on Climate and Energy Finance.³

In line with its Strategic Objectives 2021-2024 and the EDFI Statement on Climate and Energy Finance, SIFEM's commitments to climate finance are the following:

1. Align all new financing with the goals of the Paris Agreement as defined by the national climate targets (Nationally Determined Contributions; NDCs) of the countries of investment.
2. Exclude any new coal and fuel oil financing and limit other fossil fuel financing to Paris-aligned projects until generally excluding them by 2030 at the latest, in line with the Harmonised EDFI Fossil Fuel Exclusion List,⁴ which is adopted by SIFEM.
3. Dedicate at least 25% of new investments to climate protection, contributing to climate change mitigation and/or adaptation.
4. Require investees to mitigate and manage their environmental risks and adverse impacts, in compliance with international environmental, social and governance (ESG) standards.
5. Provide and facilitate advisory support to its investees to aid a Just Transition to a low-carbon economy, in close collaboration with other Swiss and international development organizations
6. Make governance, operations, and climate-related financial disclosures, based on and with reference to high international standards, specifically the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).⁵

SIFEM is among the instruments used to implement Switzerland's overarching International Cooperation Strategy, which has climate change among its thematic priorities. In addition to SIFEM's activities, Switzerland works towards climate change mitigation and adaptation through various programmes implemented by its development agencies across over 40 developing

¹ The SIFEM Climate Approach will inform the process of revision of the Approach to Responsible Investment with regards to climate.

SIFEM's Approach to Responsible Investment.

https://sifem.ch/fileadmin/user_upload/sifem/pdf/en/Other_Documents/200303__SIFEM_Approach_to_Responsible_Investment.pdf

² "A just transition for all towards an environmentally sustainable economy needs to contribute to the goals of decent work for all, social inclusion and the eradication of poverty."

International Labour Organization. (2015). *Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All.*

https://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_432859.pdf

³ Association of European Development Finance Institutions. (2020, November). *EDFI Statement on Climate and Energy Finance.* <https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2020/11/1.-EDFI-Statement-on-Climate-and-Energy-Finance-Final.pdf>

⁴ Association of European Development Finance Institutions. (2020, November). *Harmonised EDFI Fossil Fuel Exclusion List.* <https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2021/02/EDFI-Fossil-Fuel-Exclusion-List-October-2020.pdf>

⁵ *TCFD Recommendations.* Task Force on Climate-Related Financial Disclosures. <https://www.fsb-tcdf.org/recommendations/>

countries. SIFEM will seize opportunities to ensure synergies among these instruments when pursuing climate finance.

Climate Objectives and Reporting in SIFEM’s Investment Approach

Based on its commitments, SIFEM integrates climate considerations throughout the investment process using both portfolio- and transaction-level approaches. In practice, this translates into two main objectives for SIFEM’s investment strategy:

#	Objective	Scope
1	<p>Paris Alignment</p> <p><i>(fossil fuel exclusions, assessment of environmental and social risk, aligning with NDCs)</i></p>	<p><u>Investment-level</u></p> <p>Minimum condition for <u>all</u> new investments,</p>
2	<p>Increasing climate investments</p> <p><i>(positive direct climate effects)</i></p>	<p><u>Portfolio-level</u></p> <p>At least 25% of new investments will be dedicated to positive climate outcomes</p>

Objective 1: Paris Alignment

Paris Alignment is broadly defined by the Paris Agreement (Article 2.1.c) as “making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.” In this context, SIFEM applies two measures to assess Paris Alignment:

- Fossil fuel exclusion, and assessment of environmental and social risk*

The first screening applied by SIFEM is to ensure that all investments comply with its Exclusion List, which covers specific fossil fuel exclusions in line with the Technical Specifications of the Harmonised EDFI Fossil Fuel Exclusion List. In addition, SIFEM assesses investees’ environmental and social (E&S) risk management systems in its due diligence process, as well as identifying any physical and transitional climate risks and mitigation strategies.
- Aligning with NDCs*

SIFEM’s investments target low- and middle-income countries and it recognizes that the development pathways and starting points for climate action vary depending on different national circumstances and capabilities. As such, SIFEM considers the local NDCs set by each country as the main reference for alignment with the Paris Agreement and ensures that its investments do not contradict the NDCs. SIFEM additionally encourages and supports investees in efforts to achieve positive climate impacts.

Through these two measures, SIFEM categorises all potential investments as either ‘**aligned**’, ‘**conditionally aligned**’, or ‘**misaligned**’ with the Paris Agreement depending on the investees’ processes and portfolio (where technically feasible), and in line with the criteria proposed by the Paris alignment harmonization efforts of EDFI. Any new investment opportunity that is considered misaligned is ineligible for financing. Noting the importance of SIFEM’s role in supporting financial

players struggling to align with the Paris Agreement, SIFEM will engage with investees that are conditionally aligned to provide or facilitate advisory support to improve their processes.

Objective 2: Increasing Climate Investments

To contribute to positive climate outcomes, SIFEM commits to allocating at least 25% of new investments to opportunities in both the climate **mitigation** and **adaptation** spaces. In terms of climate mitigation, SIFEM follows the multilateral development banks (MDB) Common Principles for Climate Mitigation Finance Tracking,⁶ which define a list of eligible activities across various sectors (e.g., renewable energy generation, real estate, forestry) that play a significant role in reducing GHG emissions. The adaptation space is wider, includes activities targeting resource efficiency, and can intersect with many sectors, such as education, health, manufacturing, and agriculture to address climate risks like extreme weather conditions.

Climate Reporting and Disclosure

Finally, SIFEM is also committed to transparently disclosing its climate risks and impacts as accurately as possible and will therefore develop an approach considering the recommendations of the Task Force on Climate-related Financial Disclosures. This includes a commitment to monitoring and publicly disclosing its absolute financed GHG emissions post-investment on an annual basis by 2024 at the latest. This includes estimating Scope 1 (direct emissions of investee companies), Scope 2 (indirect emissions from energy purchased by investees), and Scope 3 (indirect emissions from goods and services purchased by investees). In addition to disclosing its financed emissions, SIFEM will use this data to analyse the estimated emission intensity of its investments and identify steps towards improving the GHG efficiency of its portfolio.

⁶ *Common Principles for Climate Mitigation Finance Tracking*. (2021, October 18).
https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf