CONNECTING THE DOTS OF CLIMATE MAINSTREAMING

2019 Annual Report of the Climate Action in Financial Institutions Initiative
This report was prepared by the Secretariat of the Climate Action in Financial Institutions Initiative housed at the non-profit think tank I4CE – Institute for Climate Economics.

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Foreword from the Secretariat

The Climate Action in Financial Institutions Initiative was launched on the sidelines of COP21. It is the only initiative bringing together different types of public and private financial institutions from around the world to share experience, expertise and emerging practice around climate mainstreaming – or the systematic integration of climate change considerations across their strategies, programs and operations. Built around Five Voluntary Principles for Climate Mainstreaming, the Initiative aims to support and guide financial institutions in the process of adapting to and promoting a low-carbon climate resilient development.

Since its creation, the Initiative has developed a Climate Mainstreaming Practices Database that provides concrete illustrations on practices and approaches to mainstream climate action. The many case studies in the database demonstrate the feasibility and business value of climate mainstreaming. In 2019, the Initiative further developed and scaled-up opportunities for Supporting Institutions to exchange on priority topics of climate mainstreaming through regular webinars, match-making discussions and workshops.

As the Initiative approaches its fifth anniversary in 2020, several trends have emerged since the launch of the Initiative that demonstrate its growing contribution to global debates and evolution of practice. Firstly, more than 15 financial institutions from various geographical locations and with different business models and varying experience in climate related activities have joined the Initiative since its launch. Secondly, the Initiative continues to work on topics at the forefront of the priorities of financial institutions, such as climate related risks and Paris Alignment – as well as the institutional integration of climate considerations and strategy building. And lastly, the Initiative has accumulated a wealth of lessons from its Supporting Institutions for the entire financial community as we enter 2020 and the critical decade for climate action.

The Climate Action in Financial Institutions Initiative

Who We Are

44 financial institutions:
- 22 Bilateral, Regional & National Development Banks,
- 12 Multilateral Development Banks and subsidiaries, and
- 10 Commercial Financial Institutions

Over USD 14 trillion of total assets

What we do

Knowledge Sharing within the Financial Community
- Dissemination of Emerging Practices and Lessons Learned
- Collaboration on Areas of Common Interest
What is the Climate Action in Financial Institutions Initiative?

The Climate Action in Financial Institutions Initiative is a financial institution-led initiative launched on the sidelines of the 21st Conference of the Parties (COP 21) to the United Nations Framework Convention on Climate Change (UNFCCC) in 2015. The Initiative is the only initiative bringing together different types of public and private financial institutions from around the world to share experience, expertise and emerging practice around climate mainstreaming – or the systematic integration of climate change considerations across their strategies, programs and operations.

The Initiative is guided by the voluntary Principles for Mainstreaming Climate Action within Financial Institutions established by the founding Supporting Institutions in 2015. Supporting Institutions have recognized their guidance to help financial institutions in the process of mainstreaming climate change across their activities in a holistic manner.

The 5 Voluntary Principles for Climate Mainstreaming

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<td>1. COMMIT to Climate strategies</td>
<td>Be strategic when addressing climate change. Institutional commitments to address climate change are demonstrated by senior management leadership, explicit strategic priorities, policy commitments and targets, which allow for the integration of climate change considerations within a financial institution’s lending and advisory activities over time.</td>
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<td>2. MANAGE Climate Risks</td>
<td>Be active in understanding and managing climate risk. Assess your portfolio, pipeline and new investments. Work with clients to determine appropriate measures for building resilience to climate impacts and improving the long-term sustainability of investments.</td>
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<td>3. PROMOTE Climate Smart Objectives</td>
<td>Promote approaches to generating instruments, tools and knowledge on how best to overcome risks and barriers to investment in low-carbon and resilient investments. This may include mobilizing and catalyzing additional financing and developing specialized financing vehicles/products, such as green bonds, risk sharing mechanisms or blended finance. Engage clients and other stakeholders (e.g., rating agencies, accounting firms) on climate change risks and resilience, and share lessons of experience to help further mainstream climate considerations into activities and investments.</td>
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<td>4. IMPROVE Climate Performance</td>
<td>Set up operational tools to improve the climate performance of activities. Financial institutions track and monitor indicators tied to climate change priorities, including GHG reporting, lending and advisory volumes supporting green investment, climate related asset allocations, and the institution’s own climate footprint.</td>
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<td>5. ACCOUNT for your Climate Action</td>
<td>Be transparent and report, wherever possible, on the climate performance of your institution, including increases in financing of clean energy, energy efficiency, climate resilience or other climate-related activities and investments. Be transparent and report, wherever possible, the climate footprint of the institutions’ own investment portfolio, and how the institution is addressing climate risk.</td>
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A network of financial institutions to share expertise, knowledge and practices

The Climate Action in Financial Institutions Initiative helps financial institutions face the concrete challenges of the integration of climate considerations into their different activities and operations. It focuses on sharing expertise, knowledge and practices among its members – and with the broader business and financial community by:

- Fostering the implementation of the voluntary Principles for Mainstreaming Climate Action and learning from each other;
- Ensuring that lessons learned around good practice are disseminated;
- Supporting the development of new approaches for mainstreaming climate change.

How to Join the Initiative

Any financial institution can apply to join the Initiative and become a Supporting Institution. A “Supporting Institution” is a financial institution whose management has publicly confirmed its support for the Climate Action in Financial Institutions Initiative and acknowledged the guidance provided by the voluntary Principles for Mainstreaming Climate Action within Financial Institutions.

There is no cost to join the initiative, which in 2020 will include access to:

- Resources and tools on the integration of climate change, including a mapping of Supporting Institutions’ practices and areas of work;
- Opportunities for in-person and online exchanges with both commercial and public financial institutions;
- Invitation to workshops and webinars addressing specific questions – as well as the Initiative’s Annual Assembly;
- The opportunity to help set the initiative’s priorities and focus for expert discussions and knowledge sharing.

Supporting Institutions are requested to actively participate whenever possible in the activities of the Initiative – including webinars, workshops and the Annual Assembly. They are also requested to submit one case study per year and respond to the annual survey of Supporting Institutions to help identify the priorities of financial institutions on climate change topics.

If you are interested, please contact the Secretariat of the Initiative. More information is available on the Initiative’s website concerning the process.

Please note that the Initiative, the guidance provided by the voluntary principles and participating in the ongoing sharing of knowledge and practices is on a voluntary and best efforts basis. There are no reporting requirements. Supporting Financial Institutions do not have their performance measured against the objectives of the Initiative.
2019 Highlights of the Activities of the Initiative

44 Supporting Institutions representing over $14 trillion in total assets engaged in the Initiative in 2019

In 2019, the investment fund Stoa infra & Energy (France) and the development bank BICE (Argentina) publicly confirmed their support for the Climate Action in Financial Institutions Initiative and acknowledged the guidance provided by the voluntary Principles for Mainstreaming Climate Action within Financial Institutions:

Founded in 2017, the STOA investment fund leverages the strengths and extensive experience of its two shareholders. The CDC (Caisse des Dépôts) brings a long and proven investment track record and the AFD (Agence Française de Developpement) in-depth knowledge of STOA’s targeted markets. STOA aims to invest 30% of its capital in projects with inherent climate benefit. Its mission: fulfill French ambitions to support the sustainable development of emerging countries by investing in projects which improve the livelihood of local populations and economic growth. To achieve this, STOA provides long-term investment to greatly needed infrastructure for people in Africa, Latin-America and South-East Asia.

In its role as a development bank, BICE supports and boosts the financing of strategic projects in Argentina and promotes integrated regional development, complementing markets through specific credit solutions and propelling the insertion of Argentine companies in international markets. As a sustainable development bank, BICE promotes projects with positive social and environmental impact (such as the issuance of the first sustainable bond in South America and the first in Latin America with the mayor impact on the SDGs that took place in December 2018.). BICE’s approach is aligned with the Mainstreaming Principles, particularly the commitment on Climate strategies in its programs and operations as well as the management of climate risks through the development of an Environmental and Social Management tool.

In addition, the Climate Action in Financial Institutions Initiative has two partner networks:
Networks of financial institutions can become partners of the Climate Action in Financial Institutions Initiative with the objectives of:

- Connecting the dots between initiatives and networks working on climate change and the financial sector;
- Facilitating knowledge sharing and the dissemination of best practices;
- Fostering the support to the voluntary Principles for Mainstreaming Climate Action.

A new objective for the Climate Action in Financial Institutions Initiative: “Connecting the Dots” of Mainstreaming

Each year, the Initiative holds an Annual Assembly that is a key moment to guide its activities – as well as exchange on priority technical topics. The European Bank for Reconstruction and Development, as member of the Coordination Group of the Initiative hosted the 2019 Annual Assembly in London. 14 Supporting Institutions as well as external experts from 4 institutions came together for the event.

Discussions at the Annual Assembly identified the principal added value of the Initiative: while there is a growing body of work on climate change and the financial sector, our Initiative is well placed to:

- Connect institutions: The diversity of institutions supporting the 5 voluntary Principles of the Initiative contributes to its unique position to bridge typical public-private and institutional divides.
- Connect people: The initiative builds bridges between institutions, departments and individuals to directly share practice and experience.
- Connect regions: As the number of our Supporting Institutions grows, the initiative is in a unique position to foster regional discussions, bringing together institutions to discuss specific opportunities and challenges.
- Connect theory with practice: The principal purpose of the Initiative is to support its Supporting Institutions in accessing expertise – and to connect them with first-hand experience of how it can be operationalized.
- Connect initiatives: The initiative is exchanging with other principal initiatives on climate either directly or through our Supporting Institutions who are active participants in many of these around the world.
- Connect with the financial community: Supporting Institutions of the Initiative aim to share knowledge and expertise with each other, but also with the broader financial community – providing clear examples of what financial actors can do today on climate change.

The 2019 Annual Assembly also included two content-focused discussions around climate-related risks and Paris Alignment of financial Institutions (see the summary blogpost on the Initiative’s website).
### 2019 Activities of the Initiative at a Glance

#### Sharing Expertise, Knowledge and Practices

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Over 150 practitioners exchanged on these two topics and a number of others during:
- Five webinars presenting the work of Supporting Institutions and external expertise,
- Workshop sessions on Climate Risk Management and Paris Alignment at the Annual Assembly,
- An Expert Workshop on Paris Alignment on the sidelines of the UN Climate Action Summit,
- One closed session and two side events on Climate Risk Assessment and Management at COP25,
- A closed-door expert workshop on Paris Alignment with a focus on the MDBs approach at COP25.

#### Disseminating lessons learned through the Climate Mainstreaming Resource Center and the website

- 3 new case studies added to the Database
- 18 new publications and tools added to the Library
- 9 blogposts & 6 newsletters from the Secretariat

#### Mapping Areas of Work & Matchmaking between Supporting Institutions

- Set up of a strategy for the Secretariat to support matchmaking among the Supporting Institutions (based on institutions willing to “mentor” or share their experience on particular topics and institutions interested to learn from others in that particular topic);
- 2nd edition of the Annual Survey of Supporting Institutions Areas of Work (the results are accessible by all Supporting Institutions).

#### Core Organizational and Administrative Activities of the Initiative

- 2nd Annual Assembly of the Initiative, hosted by EBRD
- Adoption of the 2019 Action Plan of the Initiative
- Renewal of the Mandates of the Coordination Group Representatives
2019 Priority Areas of Work: Paris Alignment and Climate Risk Management

Introduction: focusing on topics viewed as priorities for Supporting Institutions

In 2017, four Work Streams were identified and work was launched among Supporting Institutions:

- Participation in workshops exploring the ‘frontiers’ of mainstreaming;
- Submission of case studies and their publication on the Climate Mainstreaming Practices Database;
- Presentation and exchanges on their experience during webinars;
- Release of Joint Statements;
- Connecting the dots’ through discussions and presentations from other climate-focused initiatives.

In 2019 the Initiative decided to continue with the same four Work Streams - however, two priority topics were identified given the interests of Supporting Institutions:

- Climate Risk Management Work Stream 1
  Continuation of the work on physical and transition risks begun in 2017.

- Paris Alignment Work Stream 4
  Foster discussion between the individual and groups of institutions active on this topic.

Supporting Institutions of the Initiative collaborate around the four Work Streams in different ways:

- Participation in workshops exploring the ‘frontiers’ of mainstreaming;
- Submission of case studies and their publication on the Climate Mainstreaming Practices Database;
- In addition, Supporting Institutions identified a number of questions that serve as a basis for the program of webinars and case studies solicited from Supporting Institutions. For a full overview of the topics identified by Supporting Institutions as of interest in 2019 and 2020, please see the results of the 2019 Annual Survey.

The following section provides an overview of the discussions held around the two 2019 priority topics.
Experience sharing within the Initiative: The example of Climate Finance Tracking

In 2015, as a voluntary joint initiative, the members of the Multilateral Development Banks (MDBs) Climate Finance Tracking Working Group and the International Development Finance Club (IDFC) Climate Finance Working Group agreed on a set of Common Principles for Climate Finance Tracking:

- MDBs-IDFC Common principles for Climate Change Mitigation Tracking
- MDBs-IDFC Common Principles for Climate Change Adaptation Tracking

At that time, they shared their experience with Supporting Institutions of the Initiative through three case studies:

- MDBs and IDFC establish Common Principles for Climate Finance Tracking
- MDBs harmonize approaches for tracking in order to improve disclosure of important climate data
- The IDFC Publicly Reports Green and Climate Finance Data

In 2019, as these processes have been increasingly recognized as de facto standards within the financial community, the Initiative organized presentations from both MDBs and IDFC to share their lessons learned on “Successfully Implementing the MDB-IDFC Common Principles for Climate Finance Tracking”.

Materials of the webinar are available in the private platform of the Initiative’s website for Supporting institutions.
Overview of Discussions around 2019 Priority Areas of Focus

Paris Alignment

Context at the End of 2018

Since COP21, a number of public and private financial institutions have taken the commitment to “align” with the Paris Agreement. For example, at the One Planet Summit in 2017, the group of Multilateral Development Banks (MDBs) and the International Development Finance Club (IDFC) jointly committed to “Align Financial Flows with the Paris Agreement”.

At COP24 in Katowice, the Initiative launched the first of a series of workshops on the topic of Paris Alignment. At the same time, a number of financial institutions released a first set of ‘principles’ on Paris Alignment.

- Different sets of guiding principles were published by 3 different groups of institutions: the Multilateral Development Banks (MDBs), the International Development Finance Club (IDFC) and a group of 5 commercial banks (including BBVA, BNP Paribas, ING, Standard Chartered and Société Générale) each released sets of Principles to guide the development of approaches to align with the objectives of the Paris Agreement.

- Organization of a first State of the Art workshop on Paris Alignment: the Initiative, together with the International Development Finance Club (IDFC), the Climate Policy Initiative (CPI) and the European Climate Foundation (ECF) had convened Supporting Institutions for a State of the Art workshop on Aligning Finance with the Paris Agreement. The 2018 State of the Art workshop highlighted a need to create a space for exchanges and foster convergence in 2019 on:
  - What Paris Alignment “means” as a concept;
  - How different types of financial institutions can align with the Paris Agreement.

What happened in 2019 Across the Financial Community on Paris Alignment?

Paris Alignment was at the center of discussions for all types of financial sector actors in 2019 – from financial institutions to regulators. For example, the Coalition of Finance Ministers for Climate Action was launched. Focusing on the integration of climate change by financial ministries, among the Coalitions 6 “Helsinki Principles” the first is to “Align our policies and practices with the Paris Agreement commitments”.

In 2019, the development finance community made progress on defining frameworks on Paris Alignment:
Launched at the Initiative's workshop at the UN SG Summit in September, the **International Development Finance Club** (IDFC) commissioned a study by the think tanks I4CE and CPI on aligning finance with the Paris Agreement. The study proposes a definition and framework for alignment usable by the financial community at large. It promotes (i) a comprehensive scope of action, i.e. screening all activities financed for positive or negative climate impacts; (ii) the contribution of near term actions to the achievement of long term goals of the Paris Agreement and the SDGs; and (iii) a do no harm approach while aiming for deep transformations of systems and value chains.

During 2019, the **Multilateral Development Banks** (MDBs) built on existing work to make progress to operationalize their joint alignment approach based on the "Six Building Blocks" they had presented at COP24. During an event organized on the sidelines of COP25, they presented the key principles and criteria of their approach, as well as some methodological guidance. The next phase of the joint work will be to road test the approach and progressively expand its scope in ways that allow each MDB to reflect its specific mandate and operational arrangements.

The **Organization for Economic Co-operation and Development** (OECD) released a report, which outlines a conceptual framework for development co-operation providers to design, implement and continually assess their efforts to align with the Paris Agreement. It proposes that Paris-aligned development co-operation:
- does not undermine the Paris Agreement but rather contributes to the required transformation
- catalyzes countries' transitions to low-emissions, climate-resilient pathways
- supports the short- and long-term processes under the Paris Agreement
- proactively responds to evidence and opportunities to address needs in developing countries.

In 2019, institutions from across the financial community are taking commitments on Paris Alignment and collaborating through a number of networks and initiatives:

- 33 of the signatories of the Principles for Responsible Banking committed to immediate action towards aligning with global climate goals;
- Investors committed to align portfolios with a 1.5°C scenario and launched United Nations-convened Net-Zero Asset Owner Alliance;
- More than 50 financial institutions worldwide, representing 2.9 trillion dollars in assets, have committed themselves to assess and disclose the GHG emissions of their loans and investments using the carbon accounting standard developed by the Partnership for Carbon Accounting Financials (PCAF);
- The **Institutional Investors Group on Climate Change** (IIGCC) launched the Paris Aligned Investments Initiative to help investors to understand the concepts and issues related to aligning portfolios to the Paris Agreement goals, assess methodologies and approaches that might be used to enable investors to do so and analyse the implications of alignment on the characteristics of portfolios.

**Discussions and Activities Conducted by the Initiative in 2019 on Paris Alignment**

In 2019, the Climate Action in Financial Institutions Initiative continued to support discussions on Paris Alignment, building on the workshop held at COP24 in Katowice. These workshops bring together think-tank experts, financial sector practitioners and other stakeholders to exchange on emerging research and approaches to date on the topic. This includes the Supporting Institutions of the **Climate Action in Financial Institutions** Initiative, members of the IDFC, the group of MDBs, commercial financial institutions, government agencies and representatives – as well as research centers, think-tanks and NGOs.
May: Matchmaking Working Meeting
The Secretariat facilitated an informal exchange between the European Investment Bank (EIB) and the French Development Agency (AFD) with the Kreditanstalt für Wiederaufbau (KfW). The exchange focused on the EIB and AFD’s experience and on the work in progress at KfW.

June: Discussion Session as part of the Annual Assembly
A session at the Annual Assembly was dedicated to Paris Alignment. As part of this session, the Institute for Climate Economics (I4CE) framed the discussion with an introductory presentation of its work with IDFC on “How does the Paris Agreement represent a change for financial institutions’ operations and what are the components of an Alignment Strategy?”. Five institutions, including the AFD, the EBRD, the EIB, FMO and Société Générale acted as respondents to the presentation and shared their experience and work in progress (a summary is available on the website of the Initiative and presentations are available for Supporting institutions on the private platform).

June: Informal Dialogue between public financial institutions and think tanks at the UNFCCC Bonn Meetings
This session brought together representatives of public financial institutions part of the Initiative with experts on Paris Alignment to discuss progress to date. This included an update on Emerging Research: I4CE presented the Dimensions of a Paris Alignment Strategy, Germanwatch, NewClimate Institute and WRI presented their work focusing on the MDBs and IDFC members and the OECD the Implications of Paris Alignment for Development Assistance Cooperation; and an update on Emerging Practice in the development finance community by the Group of MDBs and IDFC members.

September: Expert workshop on Paris Alignment on the sidelines of the UN Climate Action Summit
This workshop organized by the Climate Action in Financial Institutions Initiative, in partnership with the group of MDBs and the IDFC, brought together more than 80 experts to discuss and identify points of convergence and divergence across emerging frameworks from the Research & Civil Society Community and in Emerging Practice on Paris Alignment (a summary is available on the website of the Initiative).

November: Webinar
Overview presentation of the report produced for the IDFC by I4CE and CPI on Paris Alignment (materials of the webinar are available for Supporting Institutions through the private platform of the Initiative).

December: Expert workshop, closed-door deep dive into the Approach of the Multilateral Development Banks
Following-up on the official presentation of the progress made in the development of their approach, the Initiative organized in partnership with the MDBs and IDFC a closed-door session to discuss with other Supporting Institutions of the Initiative and invited experts some technical aspects and remaining questions and challenges moving forward.
Outlook on the state of discussions at the end of 2019: points of convergences and remaining challenges

In 2019, the Secretariat has noted a number of trends and convergence points in the development of approaches on Paris Alignment:

- Alignment is increasingly defined as a process covering all activities of an institution.
- Approaches differentiate between new activities and existing assets, focusing on maximizing real economy impact.
- To be seen as holistic, alignment approaches should consider both mitigation and adaptation aspects.
- Alignment approaches tend to consider synergies and trade-offs with other SDGs, especially social aspects.
- Alignment approaches include contributions to the transformation of the real economy to achieve climate goals. The level of contribution may vary between institutions.
- Experts and practitioners highlighted that national and sectoral forward-looking pathways, plans and scenarios are necessary for the development of alignment approaches. Nationally Determined Contributions (NDCs) and Long-Term Strategies today are however insufficient to provide clear guidance for alignment approaches.
- Alignment and risk management approaches are increasingly seen as complementary, but with different objectives.

Following-up on the latest discussion sessions organized by the Initiative, the Secretariat identified a number of questions moving forward in 2020:

- How to determine which activities are Paris Aligned and which are not?
- Should financial institutions consider various “degrees” of alignment? What are the categories of alignment?
  - How does Paris Aligned finance relate to climate finance?
  - How to move from considering the volume to considering the impact of activities to maximize ‘transformational’ contributions?
- How to address the whole portfolio?
  - Should each activity actively contribute to the Paris Agreement? Or should the aggregate average of annual/entire portfolio of investments be Paris Aligned?
  - How to address activities with financial intermediaries?
- What Risk Management Strategy to adopt as part of Alignment Approaches (i.e. reduce in real economy/ for counterparties - rather than avoid)?
  - How to best deal with assets that may need to be stranded early?

1 These points were noted by the Secretariat on an independent basis. They in no way represent the formal opinions or are endorsed by individual Supporting Institution.
Overview of Discussions around 2019 Priority Areas of Focus

Climate Risk Management

Context at the end of 2018

There has been a growing recognition of the risks and opportunities of climate change for financial institutions. Since Mark Carney, the governor of the Bank of England, made a memorable speech in 2015 on the tragedy of the horizon around climate issues financial institutions are taking steps to identify and manage their exposure to three types of risks associated to climate change: the transition risks, the physical risks and the liability risks.

In some countries climate-risk related regulations and reporting requirements have emerged (for example in France through Article 173 of the Energy transition law) requiring financial institutions to disclose both on climate related risks exposure, as well as how they are integrating climate issues in their risk management mechanisms.

In 2015, the Financial Stability Board – FSB of the G20 launched the Task Force on Climate-related Financial Disclosures. The TCFD has provided guidance and recommendations for companies as well as the financial sector to foster an early assessment of climate-related risks and opportunities, improve pricing of climate-related risks, and lead to more informed capital allocation decisions. Following the release of the recommendations, a number of financial institutions – along with corporate actors – have chosen to become “TCFD supporters” and to voluntarily assess and disclose their exposure to climate-related risks.

In 2017, Central Banks and Supervisors launched the Network for Greening the Financial System – NGFS with the objective of contributing to the analysis and management of climate risks in the financial sector and thus mobilize greater support for the transition to a sustainable economy.

In 2018 UNEP FI, together with 16 of the world’s leading banks, set out on a year-long pilot project to pioneer and further develop transition and physical assessment models and metrics to enable scenario-based, forward-looking assessment and disclosure of climate-related risks and opportunities.

What happened in 2019 Across the Financial Community on Climate Risks?

In 2019, a number of these trends on climate-related risk topics continued. In turn, discussions on climate-related risks among financial institutions have begun to evolve from focusing principally on the identification and assessment of climate-
related risks, to looking increasingly at how to integrate these risks into existing risk management frameworks and decision-making processes. The year was marked by:

- **TCFD recommendations were adopted by a growing number of commercial actors and financial institutions.** As of December 2019, support for the TCFD has grown to over 930 organizations, representing a market capitalization of over $11 trillion.

Standard Chartered Bank, Rabobank, YES Bank, the European Bank of Reconstruction and Development and Rockefeller Asset Management launched the **Climate Resilience Risks and Opportunities Coalition (ClimateRROC)** and committed to disclose physical risks from 2021, with the support of UNEP FI and the Global Center on Adaptation. This group will also build support for public policies to encourage climate-related physical risk disclosure across the financial sector.

- **Financial supervisory bodies and central banks are increasingly integrating Climate Risks:**
  - The International Monetary Fund announced its aim to integrate climate risks in its surveillance work.
  - A number of central banks announced that they will be assessing the climate risk exposure of banks and insurers:
    - The Bank of England will test the resilience of the largest banks and insurers to the physical and transition risks.
    - France’s financial regulator will subject banks and insurers to climate change stress tests.
  - Risk has been established as a core component of the NGFS’s work program.
  - Central banks have published initial assessments of the exposure of their own portfolios to climate related risks and expected impacts on risk management practices.
  - The MDBs are increasingly using more sophisticated tools and methodologies to incorporate climate risk in the design of their projects. In this case for instance the IDB published its **Climate and Disaster Risk Methodology**, which was presented at the Initiative event at the COP25.

While financial institutions are at different stages of climate risk assessment and management, it is increasingly recognized as a key area of work: The question is now less if we need to manage climate-related risks but how to do it.

**Discussions and Activities Conducted by the Initiative in 2019 on Climate Risks**

Since 2017, climate risks have been the focus of one of the Initiative’s four work streams and was further recognized as a priority topic in 2019. Work conducted within the Initiative began with a workshop held at the InterAmerican Development Bank in 2018 – as well as a number of subsequent webinars and sessions that year focusing principally on approaches to assess physical climate risk.

Exchanges in 2019 focused principally on creating an opportunity for Supporting Institutions to present and discuss their experience on both assessing and developing management approaches for both physical and transition risks.

### April: Webinar

Banque de France’s analysis of Physical Climate Risks: Claire de Crevoisier (Financial and Management Division) presented the approach of the Banque de France as detailed in their 2018 Annual Report: [Banque de France Responsible Investment Report 2018](#) (materials are available for Supporting Institutions through the private platform of the Initiative).

### June: Discussion Sessions as part of the Annual Assembly

Two sessions were organized as part of the Annual Assembly with presentations from external experts, initiatives as well as Supporting Institutions to discuss:

- Trends from Across the Financial Sector, building on the perspectives of Moody’s and the NGFS.
- Emerging practice on climate risk from four financial institutions: Agence Française de Développement (AFD), Crédit Agricole CIB, the European Bank for Reconstruction and Development (EBRD) and HSBC (a summary is available on the website of the Initiative and presentations are available for Supporting institutions on the private platform).
**September: Webinar**

Stranded Assets and Carbon Lock-in:
- Adrien Vogt-Schilb, Senior Economist (Inter-American Development Bank) presented the framework used by the IDB internally and externally to avoid carbon lock-in and stranded assets and think about the transition to ‘net zero emissions’ (see Vogt-Schilb et al., 2019).
- Benoit Blanc and Virginie Vitiello (Stoa Infra & Energy) presented the outcomes of Stoa’s initial research on carbon lock-in in order to better understand the impact of the infrastructure projects they invest in (materials are available for Supporting Institutions through the private platform of the Initiative).

**December: Series of three Discussion Sessions on the sidelines of COP25**

The Secretariat organized in partnership with the Inter-American Development Bank (IDB) and the Agence Française de Développement (AFD) as well as the European Investment Bank (EIB) a series of three discussion sessions, which included:
- a closed-door event where interested Financial Institutions exchanged lessons learned on implementing climate change risk assessment methodologies and management systems;
- a public side-event on “How to build an integrated framework to manage climate-related risks: Technical insights from financial institutions”;
- a public side-event “From Climate Risk Assessment to Climate Risk Management”.

**Outlook on the state of discussions at the end of 2019: points of convergences and remaining challenges**

- A number of development banks now have multiple years of experience in integrating the assessment of physical climate risks at the project level, relying on specific tools developed externally or through specific internal processes and methods.

**Convergence points:**
- Importance of integrating the physical risk assessment process in the project cycle and have it start at the very early stages;
- In addition to identifying risk levels, assessments when implemented early in the project cycle can serve to identify adaptation needs and thus new “opportunities”.

- Development banks and commercial banks have begun to pilot the assessment of physical and/or transition risk at the client/portfolio level. Many of them relied on the support of service providers and are progressively refining, improving the methodologies either with them or independently.

**Convergence points:**
- Challenges arise due to the large amount of data needed on projects, counterparties and context;
- Climate-related risk requires forward looking data, while risk assessment mostly uses projections based on historical data;
- Difficulty to translate climate-related risk into operational terms: i.e. probability of default.

- A key question emerged in 2019: how do you move from the identification and assessment to the management of climate risks?

**Convergence points:**
- Management strategies will vary depending on the mandate and objectives of each institution;
- The development banks’ community represented at COP25 highlighted that:
  - Risk management approaches of DFIs are being considered as part/linked with alignment approaches;
  - Often from a DFI’s perspective, risk management strategies should not necessarily require divestment or avoidance of the risk, but rather support clients/countries in adapting to a changing economy and a changing climate. A main challenge and area of work is how to identify the appropriate mitigation response; this might require that DFIs in some cases accept a higher level of risk.

In 2019, the operating costs for the Secretariat and the activities of the Initiative were covered by voluntary contributions from Supporting Institutions:

<table>
<thead>
<tr>
<th>Supporting Institution</th>
<th>Contribution</th>
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</thead>
<tbody>
<tr>
<td>AFD</td>
<td>85,000.00 €</td>
</tr>
<tr>
<td>EIB</td>
<td>17,400.00 €</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>102,400.00 €</strong></td>
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</tbody>
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And in-kind support on a voluntary basis:

<table>
<thead>
<tr>
<th>Supporting Institution</th>
<th>Contribution</th>
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</thead>
<tbody>
<tr>
<td>EBRD</td>
<td>Host Annual Assembly</td>
</tr>
<tr>
<td>EBRD-EIB</td>
<td>Host COP25 Alignment workshop and catering</td>
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<tr>
<td>IDB</td>
<td>Host COP25 Climate Risk side-event and cocktail</td>
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2019 Average operating costs of the Secretariat

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<tr>
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<tbody>
<tr>
<td><strong>Staffing costs</strong></td>
<td>96,052 €</td>
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<tr>
<td><strong>Other costs</strong></td>
<td>4,495 €</td>
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<tr>
<td><strong>Indirect costs</strong></td>
<td>24,706 €</td>
</tr>
<tr>
<td><strong>Total 2018 Operating costs of the Secretariat</strong></td>
<td><strong>125,253 €</strong></td>
</tr>
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</table>

*In 2019, the operating costs not covered by the voluntary contributions were covered by a one-time contribution by the host of the Secretariat - I4CE Institute for Climate Economics. In 2020, multi-year voluntary contributions are being formalized with a small number of Supporting Institutions that will cover core operations and ensure the financial viability of the Initiative.*