



Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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The Islamic Development Bank: Development of their Climate Change Policy Implementation Framework and Action Plan

Institution



Principle

PRINCIPLE 1:
COMMIT
to Climate
strategies

Related Work Stream(s)



Publication date: 2020

Date policy / tool established	Additional capacity required (eg: staff, resources, other)	How established?
Implementation Framework: July 2019. Action Plan: September 2019	Since the creation of the Climate Change Division in October 2017, all climate change technical activities are led by the division, and occasional subject matter support is provided by external partners. IsDB's Climate Change Division provides periodic training to Operations Team Leader and Project Officers on mainstreaming climate actions into projects. In 2019 over 130 IsDB staff from various functions received tailored climate change training.	Following the approval of IsDB Climate Change Policy by the Board, it became imperative to develop an Implementation Framework to operationalize the policy, and an Action Plan to set an institution-wide climate financing target. The two products have been approved by the Management. The climate finance target of IsDB is therefore 35% of total commitment by 2025.
Monitoring, reporting tools		How implemented
In addition to reporting its climate finance annually (in the joint MDB annual climate finance report) and having a climate mainstreaming assessment tool (which will be piloted in 2020), IsDB has a well-developed independent evaluation department.		With the support and guidance of the Management, the Climate Change Division of IsDB overlaid the process on the existing structure of the Bank.

Key Lessons

- Consultations with different Complexes, Departments and Divisions within the Bank was instrumental in ensuring institutional ownership.
- Building on existing project cycle system and business processing approach within the Bank further enhanced mainstreaming and reduced the risk of no-adoption of the Bank's climate mainstreaming objectives.
- Periodic capacity building to operation teams have increased their awareness on climate change issues.
- The Climate Change Division of the Bank is relatively new, but the quick success in delivering these products is linked to Management's full support.

Introduction

In February 2019, the Islamic Development Bank (IsDB) Climate Change Policy (CCP)¹ was approved by the Board. The CCP was developed in the context of (i) IsDB's decentralized organizational structure, (ii) IsDB 10-year strategy (10YS), (iii) IsDB President's 5-year Program (P5P) and (iv) within the broader context of the Sustainable Development Goals (SDGs). The policy was informed by the good practices from the Multilateral Development Banks (MDB) community, particularly around climate change strategies (i.e. Paris Agreement, Voluntary Principles for Mainstreaming Climate Action within Financial Institutions etc.), and at the same time has been developed to be appropriately tailored for the realities of the IsDB and its Member Countries (MCs).

The CCP triggered the development of the Implementation Framework that was approved by management in July 2019. The Implementation Framework outlines the ways in which climate considerations can be integrated throughout the project cycle of IsDB operations and activities. It is designed to operationalise the CCP across IsDB's investment project cycle, with a particular focus on building awareness and capacity to understand and address climate risk among key internal stakeholders and functions, each of whom can help to mainstream climate considerations within the Bank.

To make the CCP actionable, a 5-Year IsDB Climate Action Plan was developed. The action plan presents an IsDB climate change

finance target of 35% as a percentage of the Bank's overall commitment by 2025. The 5-Year Climate Change Action Plan sets IsDB on a trajectory which enables the organization to meet the needs of its MCs by integrating climate considerations across all operations, in line with its overall mission to alleviate poverty by nurturing economic growth and providing infrastructure to enable people to lead better lives and achieve their full potential.

Development and design

The development and design of the CCP Implementation Framework followed a participatory approach. The Climate Change Division of IsDB held extensive discussions and consultations with different Complexes, Departments and Divisions within the Bank to clearly identify and define their roles and responsibilities in the mainstreaming of climate considerations in IsDBs activities.

In the case of the Action Plan, the climate change finance target incorporated two approaches: (i) bottom up approach, and (ii) methodological approach. The bottom up approach was driven by engagement with IsDB Sectors and Hubs to understand their existing pipeline of projects, investments and activities, and gather from key stakeholders' reasonable targets given their on-the-ground perspectives of the projects and investments MCs are pursuing. The methodological approach considered each MC's Nationally Determined Contributions (NDC)² commitments (conditional and unconditional) coupled with countries historical borrowing

¹<https://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB%20Climate%20Change%20Policy.pdf>

² NDCs are national climate plans highlighting climate actions, including climate related targets, policies and

measures governments aims to implement in response to climate change and as a contribution to global climate action. (source: UNFCCC)

pattern and the potential for improvement in the coming years.

Implementation

The Implementation Framework of the CCP covers different parts and functions within the organisation, including the President's Complex and Country Programs Complex (the Global Practices and the Regional Hubs). It also covers linkages with other parts of the IsDB organisation, including the Finance Complex and the Partnership Development Complex, which also have a role in implementing the CCP.

- The President's Complex has the overall executive responsibility for setting IsDB's strategic direction and providing leadership for delivering the organisation's core mandate in supporting its MCs.
- The Country Programs Complex is responsible for setting the strategies of sectors and pillars impacted by climate change and providing technical expertise and support to the Regional Hubs.
- The Finance Complex is expected to play crucial roles in developing financial products and structures that meet beneficiary needs and catalyse climate investment, and to issue Green/Climate Sukuk in collaboration with the Climate Change Division (CCD), as a means for raising money for increased climate action in MCs.
- The Partnership Development Complex can support the implementation of the CCP by: (i) facilitating and supporting the CCD in its work towards enabling IsDB to access climate finance facilities from donor countries, multi-lateral and bi-lateral organisations, (ii) developing strategies and frameworks in collaboration with the CCD for engaging and accessing international sources of climate finance to promote low-carbon, climate-resilient investments in MCs, and (iii) mobilising funds from donors to finance climate action and promote low-carbon, climate-resilient, sustainable development.]

Next step

The Action Plan was unveiled during the 25th Conference of Parties (COP25) to the UNFCCC. IsDB announced its climate finance target of 35% of the overall annual financing committed to projects and activities that mitigate emissions and support adaptation to climate change. These targets, sequenced from 2020 to 2025, will allow IsDB to ramp-up its overall activities while considering the timeframe required to fully implement and mainstream climate considerations across IsDB's operations. The target is in line with other MDBs, and consistent with calculations of IsDB's MC's individual commitments to climate change, as evident in their NDCs.