



Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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Nordic Development Fund Case Study: Pushing for Excellence through Climate Change Screening

Principle

Related Work Stream(s)



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Date Policy/Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
3 March 2014	A memo was issued to all Operations Departments that all ADB proposed projects have to be screened for climate risks and further assessment is required for those projects at risk.	All project teams has to be guided by the memo on how to undertake climate risk management in projects.	Consultants with expertise on climate science, climate modeling and research, and economic analysis of climate change adaptation were hired to support the climate change adaptation team.

Key Lessons

- The Project Identification and Screening Methodology was originally designed for NDF as a tool to secure a rigorous and systematic analysis of the climate change and development relevance of projects suggested for NDF's financing. It has succeeded well in fulfilling that objective. The policy contains explicit criteria for both climate change mitigation and adaptation projects, respectively. This ensures that climate financing through NDF is not re-labeling of any other development projects to, but that the climate content is real and proved. In addition, the value of the screening methodology, and the working practices it has triggered at NDF in its collaboration with partner institutions and countries, go well beyond the originally intended objectives.

Key Lessons

- The institution-wide applicability of the Project Identification and Screening methodology secures not only a clear commitment to climate change strategies both globally and within the organization, but also allows NDF to push forward the climate agenda towards mainstreaming in its partner organization and partner countries through early involvement and through innovative solutions beyond the obvious.
- NDF's new draft strategy focuses on elements such as catalytic role and leverage, support for innovation, preparatory financing, development of innovative financing mechanisms, collaboration between the public and the private sectors as well as identification of areas where climate change issues are evolving, but where fewer initiatives have been launched. NDF will now align the already institutionalized screening methodology with the new strategic focal areas. This will enable NDF to bring these key themes to the table already at the project planning phase. This, in turn, is likely to improve the climate content and relevance of projects and programmes from a further sharpened angle. Aligning the screening methodology with the new strategy will also enable NDF to monitor and promote climate smart objectives in an effective way in the context of each project proposal, and on the institutional level.

Introduction

The Nordic Development Fund (NDF) is a development finance organisation owned by the five Nordic countries. Since 2009 NDF has a mandate to provide financing for projects contributing to climate change and development objectives in selected, mostly lowincome, developing countries.

For NDF, the introduction of the climate mandate implied that all future financing would have to support nationally appropriate and economically justified projects that have a significant and positive climate change impacts. Given the specific mandate focused on development and climate change, it became relevant to ask how NDF could secure that NDF support goes towards managing climate risks, promoting climate objectives and improving resilience as well as build capacity in climate change questions. The mandate gave rise to a number of difficulties in defining projects that indeed merit NDF support. There are incentives for potential stakeholders to claim that projects are climate-related when in fact they are primarily—perhaps exclusively—designed for other objectives. Such relabeling is still likely to be an issue constantly faced by NDF in its role as provider of climate financing.

The need to be able to select the projects with most opportunities for climate change adaptation and mitigation, was the basis for developing a methodology for project selection. In order to be able to select from a large mass of proposed project concepts the ones which have most climate relevance, NDF created its own methodology for Project Identification and Screening. The tool has been used to strengthen the climate content of the projects that NDF co-finances with other international financial institutions. It sets minimum criteria for climate change adaptation and mitigation, as well as assesses projects in relation to their development related impact. The methodology has a set of criteria for adaptation and mitigation.

The criteria relate to economic justification, climate change relevance and multiple criteria relating to developmental aspects. The methodology can be found in its full form on NDF's web site www.ndf.fi.

Implementation

The methodology is used by all NDF operational staff active with project identification and preparation. In order to apply the monitoring of new strategic elements in practice, a number of amendments to the screening methodology are being made. Some of the key revisions will relate for instance to the tracking of targeted vs realized leverage and follow-up funding.

Experience and Impact

The Project Identification and Screening Methodology was originally designed for NDF as a tool to secure a rigorous and systematic analysis of the climate change and development relevance of projects suggested for NDF's financing. It has succeeded well in fulfilling that objective. In addition, the value of the screening methodology, and the working practices it has triggered at NDF in its collaboration with partner institutions and countries, go well beyond the originally intended objectives.

Through a systematic application of the screening methodology, NDF contributes to the five principles. The foundation is laid with a clearly climate change focused institutional strategy and internal processes aligned to measure the fulfillment of the strategy. The institution-wide applicability of the screening methodology secures not only a clear commitment to climate change strategies both globally and within the organization, but also allows NDF to push forward the climate agenda towards mainstreaming in its partner organization and partner countries through early involvement and through innovative solutions beyond the obvious.

Early involvement makes a difference. The application of the screening criteria brings NDF onboard early in the project planning cycle. At project level, this is the critical time when it comes to assessing the climate risk and creating strategies for managing the risks. Equally important, this is also the right time to assess the upside. What kind of opportunities can there be as a result of the changing climate? Several examples documented through external NDF-specific evaluations and project reviews document enhanced climate relevance and in increased focus on resilience building measures, as well as realization of climate change related opportunities as a result of NDF's early involvement in project design. Recent case studies from the road transport sector show, for example, that NDF's screening has revealed inadequate institutional and technical capacities regarding climate change relevant aspects. Additional designs enabled through NDF's involvement have contributed significantly towards mainstreaming of climate change adaptation in the transport sector in several countries. Some of these results are presented in the context of the COP21.

Pushing for climate excellence. NDF's new draft strategy focuses on elements such as catalytic role and leverage, support for innovation, preparatory financing, development of innovative financing mechanisms, collaboration between the public and the private sectors as well as identification of areas where climate change issues are evolving, but where fewer initiatives have been launched. NDF will now align the already institutionalized screening methodology with the new strategic focal areas. This will enable NDF to bring these key themes to the table already at the project planning phase. This, in turn, is likely to improve the climate content and relevance from a further sharpened angle. Aligning the screening methodology with the new strategy will also enable NDF to monitor and promote climate smart objectives in an effective way in the context of each project proposal, and on the institutional level. By following the set of key indicators on institutional and project level, the knowledge base and lessons learned from functional approaches, and approaches needing more fine-tuning, will grow steadily and help improving the performance at NDF, in its partner institutions and most importantly, in the low income countries facing severe systemic and multi-sectoral climate change challenges that that need solutions requiring a leap forward.