



# Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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## Lending Targets Lead to Performance Tracking at Inter-American Development Bank (IADB)

Principle

Related Work Stream(s)

<p>PRINCIPLE 4: <b>IMPROVE Climate Performance</b></p>	 <p>MAPPING REPORTING INITIATIVES AND UNDERSTANDING IMPLEMENTATION CHALLENGES</p>
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Date Policy/Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
2010	Included in the Ninth General Capital Increase, approved by the Board of Governors in 2010	Guidelines published in 2012; implemented over the period of 2012 to 2015	New data systems, and new functions in several departments were required.

### Key Lessons

- Lending targets are useful for establishing internal incentives.
- The climate change lending target has contributed to strengthening vulnerability assessments and tools.
- Climate finance is subject to strong inter-annual variations.

## Introduction

As part of its Ninth General Capital Increase (IDB-9) in 2010, the IDB introduced a set of lending priorities with quantitative targets.<sup>1</sup> The third lending target established that, in 2015, 25 percent of loan approvals should address climate change, sustainable energy and environmental sustainability.

## Development and Design

The introduction of the lending targets required several changes in the institution. First, a special Committee was set up by the Bank's management to prepare a document aimed at providing technical and operational guidance for the classification of operations under one or more of the lending priorities. The guidelines, published in January 2012, divide the third lending target into 4 sub-categories: climate change mitigation, climate change adaptation, sustainable energy, and environmental sustainability. They establish a set of sectors and sub-sectors, with descriptions, and determine what subsectors contribute to the different lending targets (or sub-categories) automatically or conditionally. They further clarify that if a large share of the operation complies with the criteria of a lending target, the total lending amount of the operation is counted as contributing to that lending target. The classification included in the development effectiveness matrix (DEM) of the internal approval document is used for the purpose of reporting alignment with the lending targets.

## Implementation

The IDB had to modify its internal data systems to accommodate the new sector and sub-sector typology, as well as to capture alignment to the lending targets. New templates were prepared for project documents and for the DEM. Finally, responsibilities were defined for ensuring quality control.

Since 2011, project teams have captured in the project documents and in the Bank's data systems the alignment of their operations with the lending priorities, and project alignment is commented on by participants to the eligibility and quality and risk review meetings. The development effectiveness offices provides final validation.

Results have been published in the Bank's Development Effectiveness Overview (DEO). Results on the third lending priority have also been published in the Sustainability Report.

## Experience and Impact

During this period the following results have been observed:

- Lending priorities have led to increases in lending volumes, both by raising awareness within the bank on new areas of work, and by facilitating the approval of projects that are aligned with the priorities.
- Having a climate change lending target in place has contributed to strengthen the capacity of the bank to include vulnerability assessments and adaptation activities in its operations.
- The third lending target indicator (lending in climate change, sustainable energy, and environmental sustainability) is subject to considerable volatility: It reached 33% in 2012, fell to 20% in 2013, and then recovered the 33% level in 2014.
- After the GCI-9 was approved, the IDB developed with other MDBs the Joint MDB Approach for Climate Finance Tracking, which differs in some aspects from the criteria used to assess lending target compliance. This has led to two parallel reporting systems.

The Bank is currently exploring a revised approach to tracking alignment of financial flows to institutional priorities, to be included in the Corporate Results Framework 2016–2019 (currently under development).

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<sup>1</sup> Applicable to all lending from Ordinary Capital and Funds for special Operations, as well as operations approved through the Grant Facility for Haiti.