Mainstreaming Climate in Financial Institutions

2021-2025 STRATEGY

April 2021

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An Initiative Dedicated to Making Climate Change Part of Core Financial Practice

Climate Mainstreaming is Becoming an Integral Part of Financial Sector Practice

Climate change has become a priority for the financial sector. This trend has accelerated since 2015, when the G20 launched a Task Force on Climate-related Financial Disclosures and the Paris Agreement called to "make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". Financial institutions are now increasingly committing and developing approaches both to **manage climate-related risks and opportunities** – as well as to **"align" their financial transactions and flows with the long-term objectives of the Paris Agreement**.

Achieving these two objectives at the institutional and global level requires a shift from financing climate activities in incremental ways, to **making climate change – both in terms of opportunities and risk – a core consideration** and a "lens" through which financial institutions deploy capital.

Today, the question is no longer *if* financial institutions should mainstream climate change in their operations but *how*.

Five Voluntary Principles for Mainstreaming Climate Action: Helping the Financial Sector Contribute to Climate Goals and Manage Climate Risks & Opportunities

In 2015, 26 pioneer financial institutions came together at COP21 around **five shared voluntary Principles that provide guidance to financial sector actors on 'mainstreaming' climate change**. They recognized the importance of systematically integrating climate change considerations across financial institutions' strategies, programs and operations to deliver more sustainable short-term and long-term results – both developmentally and financially. Between 2015 and 2020, this unprecedented coalition has grown from an initial 26 to more than 50 Supporting Institutions and has become a key resource for the financial community.

THE 5 VOLUNTARY PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

1. **COMMIT to climate strategies**

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.

2. **MANAGE climate risks**

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.

3. **PROMOTE climate smart objectives**

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.

4. **IMPROVE climate performance**

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.

5. **ACCOUNT for your climate action**

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.

An Initiative Built by and for Financial Professionals

Mainstreaming Climate in Financial Institutions was founded to create **a community of peers from public and private financial institutions** around the implementation of the five voluntary principles for mainstreaming climate action. These principles continue to remain at the heart of the Initiative - a financial institution's support and acknowledgement of their guidance remains the only requirement to join as a Supporting Institution.

Through the Initiative, **Supporting Institutions share experience, knowledge and lessons learned with each other and with the broader financial community** on how mainstreaming approaches can support financial institutions to simultaneously seek out and scale up low-carbon and climate resilient business opportunities and address climate risks.

This community of peers provides exposure to best practice and direct access to professionals from across the financial community through a program of climate-finance related activities and events - **enabling professionals to save time, be more efficient and support the development of common approaches.**

An Initiative Filling a Unique Role in a Rapidly Evolving Ecosystem

The Initiative fills a unique role within the climate change ecosystem as **the only international forum of discussion on all aspects of climate mainstreaming for all types of professionals from both public and private financial institutions**. Since 2015, the financial sector has seen an explosion of initiatives and coalitions proposing guiding principles, approaches, tools or methodologies. The Initiative engages with many of these other initiatives that often focus on only one aspect of climate mainstreaming or cater to specific types of financial institutions or groups.

Moving forward, the Initiative aims to be **a forum for financial institutions to exchange frankly and confidentially on the many aspects of climate mainstreaming, connecting the dots between public and private institutions, financial professionals, initiatives, regions and with other stakeholders of the climate and finance community.**

The Initiative's Outlook for the Coming Five Years

Within this rapidly evolving landscape, the Initiative and the five voluntary Principles for Mainstreaming Climate Action will continue to **provide a strong operational foundation for financial institutions of all types to advance on climate change.**

Moving forward, the initiative will continue to fulfill the important role of connecting the dots between individuals, institutions and initiatives - as well as between theory and practice on mainstreaming climate change across financial institutions activities. The Initiative supports "matchmaking" or informal dialogue, enhanced connectivity, and joint innovation between peers with the goal of simplifying and accelerating learning from each other's efforts. It fosters exchanges on emerging climate best practices through technical discussions, facilitating access to key publications and resources, and exposure to cutting-edge expertise. Furthermore, the Initiative provides a platform for like-minded financial institutions to demonstrate leadership by example on climate change to the broader financial community.

Long-term Vision

Resulting from a yearlong strategic reflection in 2020, the Initiative updated its Long-Term Vision enshrined in its Governance Statutes.

In line with the internationally agreed commitments to urgently address the threat of climate change, the Mainstreaming Climate in Financial Institutions supports public and private financial institutions to better reflect and manage climate-related risks and opportunities, ensure that climate considerations are disseminated within and across their organizations and align financial flows with the goals of the Paris Agreement.

Building on the pivotal role of finance in driving low greenhouse gas emissions development and resilience to the adverse impacts of climate change, the 5 voluntary Principles for Mainstreaming Climate Action in Financial Institutions provide a framework to guide them through this process.

Overarching Aims and Objectives

The Initiative also updated its Overarching Aims and Objectives based on the experience gained over the last five years.

Mainstreaming Climate in Financial Institutions helps financial institutions integrate climate considerations into their different activities and operations.

The Initiative fosters the implementation of the voluntary Principles for Mainstreaming Climate Action by:

- *Creating a community of professionals inside public and private financial institutions to share emerging practices including the latest methodologies, tools and their experience of implementing them.*
- *Leading by example within the broader financial and business community, including by disseminating knowledge and lessons learned.*

Theory of Change for the 2021-2025 Strategy

Based on the Initiative's Long-term Vision and Overarching Aims and Objectives, the Initiative aims to apply the following theory of change to guide its strategy and activities over the next five years.

- **Assumption:** The question for financial institutions is no longer *if* they should mainstream climate change in their operations, but *how*. Yet, financial institutions' motivations for taking climate action are still diverse. Some want to develop innovative approaches and processes to integrate climate considerations into their strategies and operations:
    - To anticipate and, in some cases, help shape evolutions, including regulatory changes;
    - To develop a competitive advantage through new business opportunities or better risk management;
    - Because it is part of their mission and mandate.

  Other institutions are facing increasing pressure from stakeholders and regulators and want to find a shortcut to implementing established best practice.

  The different professionals that the Initiative targets within financial institutions want to achieve diverse tasks such as setting climate targets or performing climate risk assessments. Many of them are facing difficulties in navigating the overwhelming amount of information and initiatives on these and other topics in the climate space. They need to understand easily and efficiently how to undertake these specific tasks.

- **Intervention:** The Initiative's work seeks to accelerate climate understanding and action among this range of financial institutions and professionals in four main ways:

    - **Providing high-level orientation.** The voluntary Principles for Mainstreaming Climate Action provide a framework for financial institutions to understand quickly where they stand in terms of mainstreaming climate and to identify priority steps to take.

    - **Accelerating implementation of current best practice.** The Initiative provides access to curated lists of reports, tools and trainings to help financial professionals accelerate implementation of particular tasks according to current best practice.

    - **Creating a space for a community of peers to share experience and build connections.** The program of activities provides spaces for peers from public and private financial institutions to exchange together to share lessons and challenges in implementing current best practices, to workshop new approaches and to develop common positions. Some of these exchanges will take place independently of the Secretariat's involvement and could even include working together on deals and co-financing. The needs of different teams and departments within FIs are taken into account to tailor activities around common themes.

    - **Increasing transparency on what other financial institutions are doing on climate, why, and how it benefits them.** By providing visibility on the practices of other financial institutions, collating the most relevant news, and access to case studies, it saves financial professionals time while strengthening internal advocates of ambitious climate action.

  A financial institution's support for the Initiative and acknowledgement of the guidance provided by the five voluntary Principles for Mainstreaming Climate Action remains the only requirement to join. Supporting Institutions are solicited to contribute to the definition of the activities and events of the Initiative. The Initiative does not charge fees and operates based on the voluntary contributions from its Supporting Institutions (SIs). Furthermore, it does not require mandatory reporting and SIs choose what and how they would like to share their experience.

- **Impact**: This community of peers accelerates and promotes the adoption of emerging best practices on climate mainstreaming within individual financial institutions and the broader financial community. As a result, it supports financial institutions to seek out and scale up low-carbon and climate-resilient business opportunities and address risks posed by climate change, bringing their financial flows into closer alignment with the objectives of the Paris Agreement and reducing the risks to financial stability. See the table below for more on how the Initiative will seek to characterize its success in delivering this.

Charting Strategic Priorities Focused on Three Key Areas

Table 1 presents an overview of the strategic objectives and the impacts that the Initiative aims to achieve over the next five years:

- **Sustainability & Positioning of the Initiative**: objectives, outcomes and KPIs have been identified to support the creation of a strong foundation for the Initiative vis-à-vis its governance, functioning and financial sustainability.
- **Membership & Community**: objectives, outcomes and KPIs have been identified concerning the composition of the membership, connectivity and engagement between members.
- **Dialogue & Dissemination:** objectives, outcomes and KPIs have been identified on how the initiative supports dialogue and disseminates information on emerging practice as well as lead by example within the financial community.

Success across these three areas and the achievement of the objectives will support the Initiative's positive contribution to the alignment of finance flows with international climate objectives and the management of climate-related financial risks at the international level.

Table 2 presents an overview of the outcomes that the Initiative aims to achieve, detailing these outcomes across the three areas of strategic objectives as well as laying out key performance indicators.

This **strategy will frame the development of Biennial Action Plans that will lay out the near-term objectives and actions over a two-year period**. The first Biennial Action Plan will have two overarching Work Streams on Paris Alignment and Climate Risk Management. Flexibility will be maintained to address other topics on an ad hoc basis, as per Supporting Institutions' needs. Each Biennial Action Plan will identify activities linked to the expected budget and potential activities linked to fundraising.

A Commitment to Increasing Ambition Over Time

The individual financial institutions that are part of this Initiative have each heard and responded to **the call for the financial sector to play a critical role in helping achieve shared climate goals**. The Initiative equally recognizes **the call for increased ambition on climate action over time and throughout the broad financial ecosystem to ensure that the financial sector meets its full potential** in driving low greenhouse gas emissions development and resilience to the adverse impacts of climate change.

Today, the Initiative's membership consists mainly of public and commercial banks, and hence focuses its activities principally on their needs and interests. Moving forward, it aims to broaden membership among financial institutions: on one hand **institutions in emerging markets and developing countries that are most in need of support and less represented in existing climate-related initiatives** in the financial space; and on the other hand, **institutions that have demonstrated leadership in the topic, are active in international fora and are willing to share their experience**.

Given the ambition of an increase in the membership over the next 5 years, the Initiative's activities will be designed to be **scalable** and **adaptable** whenever possible to this increase in the number of institutions participating.

To ensure that the actions of the Initiative are commiserate with the challenge at hand, **the Coordination Group and the Assembly of Supporting Institutions will review at the conclusion of each Biennial Action Plan both the progress and gaps** to achieving the objectives and expected outcomes presented in this document, with the possibility to update it accordingly.

2025 Objectives, Outcomes and KPIs

General overview

OBJECTIVES	IMPACT

Sustainability & Positioning of the Initiative

- Ensure the sustainability of the Initiative and its functioning and governance.

- Strengthen the positioning of the Initiative within its ecosystem.

Membership & Community

- Strengthen the « community » of peers through the development and improvement of matchmaking, connectivity and peer-to-peer exchanges.

- Increase participation in the Initiative's events and use of resources made available via the Initiative.

Dialogue & Dissemination

- Support dialogue on the ongoing development and improvement of climate mainstreaming approaches between FIs.

- Disseminate emerging best practices, with a twofold objective of building capacity and demonstrating leadership by example within the financial community.

Changing Financial Sector Practice

- **Support the adoption & improvement of climate mainstreaming practices by a critical mass of financial sector actors.**
- **Contribute to the alignment of finance flows with international climate objectives and the management of climate-related financial risks at all levels.**

Impact desired for 2025

	5-year Objectives	Outcomes (by 2025)	Key Performance Indicators (Qualitative or Quantitative)

Changing Financial Sector Practice	• Support the adoption & improvement of climate mainstreaming practices by a critical mass of financial sector actors.
	• Contribute to the alignment of finance flows with international climate objectives and the management of climate-related financial risks at all levels.
		• Supporting Institutions of the Initiative will have:
		  ◦ Scaled- up activities consistent with the Paris Agreement objectives and scaled down inconsistent activities;
		  ◦ Taken into account climate-related risks and opportunities as a core part of their business and activities
		• The Five voluntary Principles for Mainstreaming Climate Action and lessons learned from emerging best practices have influenced the new ‘norms’ on the integration of climate considerations by financial institutions (Paris Alignment, TCFD reporting, GCF accreditation, etc.)
		• Through its workstreams and events, the Initiative will have made substantive contributions to progress made by the broader financial community on increasing ambition and climate mainstreaming.
			• Supporting Institutions will have made demonstrable progress on better reflecting and managing climate-related risks and opportunities, ensuring that climate considerations are disseminated within and across their organizations and aligning financial flows with the goals of the Paris Agreement, by:
			  ◦ Setting climate strategies
			  ◦ Setting climate investment targets
			  ◦ Carrying out climate risk assessments
			  ◦ Carrying out alignment assessments
			• A pilot group of SIs will have publicly reported on a voluntary basis on their progress on climate mainstreaming - either through existing reporting frameworks and/or on the basis of the 5 Principles and related guidance.

Detailed 2025 Objectives, Outcomes and KPIs

Level	5-year Objectives	Outcomes (by 2025)	Key Performance Indicators (Qualitative or Quantitative)[1]
Sustainability & Positioning of the Initiative	• Ensure the sustainability of the Initiative and its functioning and governance. • Strengthen the positioning of the Initiative within its ecosystem.	• Achievement of a sustainable financial model enables the initiative to meet its ambition. • Strengthened existing and development of new partnerships to enable the Initiative to efficiently disseminate lessons learned from emerging best practices and contribute to international discussions on the evolution of climate mainstreaming practices. • The initiative is perceived as one of the main networks for peer-to-peer exchanges on climate mainstreaming between financial institutions' professionals.	• Financial resources are adequate to given objectives with a multi-year visibility of resources available. • Three to four strategic partnerships are developed with other major initiatives: with the objective to co-disseminate lessons learned from emerging best practices and to contribute to international discussions on the evolution of climate mainstreaming practices. • Increased external references to the initiative and its Principles.[2]

Membership & Community	• Strengthen the « community » of peers through the development and improvement of matchmaking, connectivity and peer-to-peer exchanges.
	• Increase participation in the Initiative's events and use of resources made available via the Initiative.
		• Ensured diversity in the community of professionals participating in the Initiative across:
		  ◦ Public and private sector institutions;
		  ◦ Global regions;
		  ◦ Types of professionals within different parts of institutions.
		• Focus recruitment of new SIs on two priority groups : 1) commercial and public banks in emerging markets and developing countries that are most in need of support and less represented in existing climate-related initiatives in the financial space and 2) financial institutions that have demonstrated leadership in the topic, are active in international fora and are willing to share their experience and
			• Progressive increase in the number of Supporting Institutions driven by SI outreach (minimum of 100% increase of the membership).
			• Equilibrium between public and private Supporting Institutions (aim to reach 50%-50% between public and private institutions – minimum of 40%).
			• Equilibrium in the geographic representation (aim to reach 50%-50% between SI with HQ in developed and developing countries – minimum of 40% - with an aim to achieve balance between different geographic regions).
			• 100% of active Supporting Institutions participation through the release of public case studies and/or participation in events, closed-door webinars, or workshops.

[1] The Secretariat will report annually to the Coordination Group on the progress made towards achieving 2025 KPIs.
[2] Annual tracking of external references, qualitatively highlighting the most significant such as uptake by major international organizations.

		engage into dialogue with the initiative supporting institutions. • Creation of a dynamic, interconnected community that simplifies and accelerates learning between Supporting Institutions around both foundational and advanced topics.	
Dialogue & Dissemination	• Support dialogue on the ongoing development and improvement of climate mainstreaming approaches between FIs. • Disseminate emerging best practices, with a twofold objective of building capacity and demonstrating leadership by example within the financial community.	• Ensured access for Financial institutions, whether Supporting Institutions or not, to resources to advance on climate mainstreaming at all levels of experience on the topic. • Ensured exchanges between financial institutions via the Work Streams of the Initiative, contributing both to the development of emerging mainstreaming approaches and to international exchanges on the new frontiers of climate mainstreaming. • The Initiative’s activities contribute to broader discussions within the climate and finance ecosystem.	• The Climate Mainstreaming Resource Center has become one of the main tools used by financial institutions (100% increase in traffic by financial institutions professionals). • 50% of Supporting Institutions have shared their experience either publicly during events of through case studies, or more informally with their peers through webinars, or workshops. • Increased participation of Supporting Institutions and other financial institutions in the information exchanges supported by the Initiative (200% increase in the events attendees). • Dissemination of outcomes of exchanges with networks of financial institutions as well as other impactful networks (such as of Finance Ministers, supervisors and regulators and other counterparties influencing or regulating FI practices).