Mainstreaming Climate
in Financial Institutions

Climate Mainstreaming

Stocktake of progress made in 2021-2022

Biennial report

Mainstreaming Climate in Financial Institutions

We help public and private financial institutions from developed and developing economies mainstream climate considerations into their activities and operations.

What is the Vision of the Initiative?

- In line with the internationally agreed commitments to urgently address the threat of climate change, *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.

“It is the only initiative bringing together public and private financial institutions to exchange on climate mainstreaming.” Amal Benaissa, Head of Sustainable Finance, Bank of Africa

What does the Initiative do?

- This community of financial institutions focuses on sharing emerging and good climate mainstreaming practice – including the latest methodologies, tools, and implementation experience – as well as leading by example within the broader financial and business community by disseminating knowledge and lessons learned.

"This initiative offers climate experts in financial institutions the opportunity to be connected to a community of peers", Amal Benaissa, Head of Sustainable Finance, Bank of Africa

A global network of 53 public and private financial institutions

"This initiative has an important convening power. It brings the opportunity to exchange with professionals from Multilateral Development Banks (MDBs), members of the International Development Finance Club (IDFC) as well as other public and private finance institutions." Estelle Mercier, Deputy Head of the Climate and Nature Division, AFD

Understanding climate mainstreaming

- Climate mainstreaming is the systematic integration of climate considerations throughout a financial institution's strategies, and operations.
- The five voluntary Principles for Mainstreaming Climate Action provide a framework to guide institutions through the process.
- The initiative's online Climate Mainstreaming Resource Navigator breaks down this framework into tasks that financial institutions carry out to mainstream climate within their organisation, helping them to identify, understand and implement emerging and good practice related to their area of work.

"Climate mainstreaming is about making sure that we take into account climate in everything we do" Jonathan Taylor, former EIB Vice President at the launch event of the initiative.

Understanding climate mainstreaming

Five voluntary Principles for Mainstreaming Climate Action within Financial Institutions:

1. COMMIT TO CLIMATE STRATEGIES
2. MANAGE CLIMATE RISKS
3. PROMOTE CLIMATE SMART OBJECTIVES
4. IMPROVE CLIMATE PERFORMANCE
5. ACCOUNT FOR YOUR CLIMATE ACTION

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"The five voluntary Principles for Mainstreaming Climate within Financial Institutions are valuable guidance and have strong potential to become the new standard guiding financial institutions in their alignment journey", Estelle Mercier, Deputy Head of the Climate and Nature Division, AFD

Sharing experience on climate mainstreaming

- **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.
- **Our program of webinars and workshops fosters the sharing of experience and knowledge online and in-person.** It is developed together with the financial institutions that make up our network to ensure it meets their needs.
- **Finance professionals from a range of different teams – from sustainability and climate to compliance and risk – help to shape different events.** We also connect our Supporting Institutions with events organized by their peers, our partners, and other initiatives.

Mainstreaming Climate in Financial Institutions

Zoom on the climate mainstreaming journey of the French Development Agency (AFD)

AFD’s climate mainstreaming journey started in 2007 with the development of a carbon footprint tool and the inclusion of the topic in some sectoral strategies. Following on this initial experience, AFD launched its first “climate and development” strategy in 2012 that included its first climate finance target (50% of financial agreements made by AFD in foreign states had to include climate co-benefits).

In 2015, the group participated in the development of the common principles for tracking climate finance (adaptation and mitigation) alongside the IDFC and MDB Group and contributed to the development of alliances to exchange with peers on climate change – including the launch of the Mainstreaming Initiative in the sidelines of COP21.

In 2017, AFD raised its ambition and was the first development bank to commit to be 100% Paris Agreement in its renewed climate and development strategy. With this new commitment, the analysis of the consistency of its operation in regards to low carbon and climate resilient development becomes a lens through which AFD assesses all of its activities. The scope of the climate finance target was expanded to all AFD Group and a volumetric target was included (including a target for adaptation). From 2021, AFD Group confirmed its ambition to contribute to France's new enhanced climate finance target that aims to devote 6 billion euros to climate finance per year, including 2 billion for adaptation in favour of developing countries

Key lessons learned:
- Importance of the top management commitment and strategic vision on climate change
- Need for human resources to implement climate commitments and strategies
- Need for tools and trainings to support operational teams in the implementation of the climate strategy

Next frontiers of AFD climate mainstreaming journey:
- Mainstreaming climate and nature considerations together
- Supporting the alignment of AFD counterparties
- Continue supporting countries in the development and implementation of their long-term strategies
- Developing a climate-related financial risk management strategy in line with its development mandate following its advances around the assessment of climate risks at the counterparty level

Zoom on the climate mainstreaming journey of Bank of Africa (BoA)

BoA climate mainstreaming journey started with the development of an Environmental and Social Management Action Plan as part of a partnership with IFC.

The second phase of this journey started in 2015, when BoA developed specific financing products in partnership with development finance institutions to facilitate the financing of energy efficiency measures among others.

In 2018, BoA entered a third phase in its journey: climate risk management. BoA is currently in the process of preparing its first TCFD report.

Key lessons learned:

- Start small with an initial strategy which is relatively easy to implement and which will help you mainstream climate considerations in your institution
- Get the buy-in and commitment of top management
- Work with champions in each department of the institution

Next frontiers of BoA climate mainstreaming journey:

- Climate-risk assessment at the portfolio level
- TCFD harmonization
- Development of internal tools to mainstream climate up until the banker
- Biodiversity and natural capital mainstreaming

Zoom on the climate mainstreaming journey of the European Investment Bank (EIB)

The EIB climate mainstreaming journey started with a position paper on climate change.

The first climate change strategy of the group was adopted in 2015 for COP21 in Paris in parallel of the development of the voluntary Principles for Mainstreaming Climate Action within Financial Institutions, with the objective of "making sure that the EIB takes into account climate in everything it does".

The adoption of the Paris Agreement and the objective of making finance flows "consistent" with climate goals was an important milestone in this journey. With the mid-term review of the EIB climate strategy, the EIB started to change what it is doing to be the first Multilateral Development Bank to "align with the Paris Agreement".

Key lessons learned:

- A climate finance target is a good first step to start the climate mainstreaming journey.
- To truly mainstream climate considerations in your organization, you need to act both top down and bottom up.
- It is critical to involve all the different parts of the institution early on to drive the climate mainstreaming process. It is also important to let one part hold the pen and one part monitor the progress, so you have both buy-in and clear responsibilities.
- It is essential to think about results monitoring framework and reporting in advance. This can take a lot of time.

Next frontiers of EIB climate mainstreaming journey:

- Supporting EIB clients in their alignment journey
- Jointly mainstreaming climate, environmental and social issues

2021-2025 Strategic Plan

OBJECTIVES

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.

IMPACT

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.

Mainstreaming Climate in Financial Institutions

2021-2022 at a glance

- Sustainability & Positioning
  - New partnership with the International Development Finance Club (IDFC).
  - Launch of the FI Group on Aligning financial chains with the Paris Agreement with UNEP FI
  - Release of a new website and development of the Climate Mainstreaming Resource Navigator
- Membership & Community
  - Creation of SI profiles on the website
  - Engagement with SI via bilateral calls / meetings
- Dialogue & Dissemination
  - 13 technical webinars
  - 7 short webinars “Zoom on a Supporting Institution”
  - 5 workshops
  - 9 COP side-events

2021 events

- How to set ambitious and measurable climate-related targets?
- What does a "just low-carbon and resilient transition" in the energy sector imply for financial institutions?
- Finance instruments and engagement strategies for the energy transition
- GHG accounting to assess the consistency of a portfolio with the temperature goal of the Paris Agreement
- Transformative climate finance in the context of the covid-19 recovery
- Zoom on a SI: NDF Strategy 2025
- 1st webinar of the FI Group on Aligning Financial Chains with the Paris Agreement
- Supporting a low-carbon resilient transition in the transport sector: Examples of SI Practice
- 2021 Annual Assembly
- Zoom on a SI: BDMG
- Understanding and managing transition risk for development banks
- Aligning financial chains with the Paris goals – supporting the private sector in transition
- How are PDBs increasing their contribution to the Adaptation Goal of the Paris Agreement
- Making Climate Finance Work in an Uncertain World
- Paris Alignment technical workshop
- Presentation of the Climate Mainstreaming Resource Navigator

2022 events

- 2021 Climate and Financial Sector Round-Up: What Priorities for 2022?
- Mainstreaming climate and biodiversity considerations: experience sharing between financial institutions
- Evolution of SI practices to address the transition and adaptation of the agricultural sector
- Zoom on a SI: World Bank Group Climate Change Action Plan 2021–2025
- How to track progress on the implementation of climate action plans and objectives?
- Zoom on a SI: PIDG Climate Strategy
- Liability risk: NGFS and UNEP FI recommendations on a new area of work for climate risk management
- Zoom on a SI: Development Bank of Southern Africa
- Workshop of the FI Group on Aligning Financial Chains with the Paris Agreement: How to assess the level of “alignment” of a counterparty?
- Strategic integration of transition risks and opportunities: how can scenario analysis help?
- Zoom on a SI: ADB Energy Transition Mechanism
- Zoom on a SI: FONPLATA
- Aligning with the Adaptation goal of the Paris Agreement

Join the discussion at COP27

on the IDFC pavilion & online

How to start on the climate mainstreaming journey?

November 8 - 19:00-20:00

Disseminating climate-related risk management practices in developing countries

November 9 - 11:30-12:30

Supporting partner financial institutions in their journey towards Paris Agreement alignment

November 9 - 19:00-20:00

Rethinking development banking in the Decade of Delivery

November 14 - 14:30-17:00

Supporting the alignment of financial institutions' strategies and operations with the Paris Agreement objectives

November 16 - 16:00-20:00

Principle 1
COMMIT to climate strategies

Integrating climate considerations in a financial institution's strategy

- ***Why?*** It encourages a coherent and systematic approach to climate mainstreaming and serves as a foundation and catalyst for a range of operational responses.

- ***How?*** Based on backward- and forward-looking impact, risk, and alignment assessments, a financial institution can identify climate-related strategic priorities and set specific commitments, targets or goals typically embedded within a stand-alone climate change strategy or within broader sustainability or transversal strategy documents. To avoid staff working in silos, climate-related strategic priorities, commitments, plans and targets should be developed together with the institution's other strategic objectives, endorsed and promoted by the institution's leaders and integrated in its main strategy.

Highlight of latest developments:

- **Over 2021-2022 a number of financial institutions adopted or revised their climate strategy towards increasing their support for mitigation and adaptation and aligning all of their operations with the Paris Agreement goal.**
- **International initiatives and organizations started to develop guidance for the development of transition plans with the objective of gradually integrating mitigation considerations in all the activities of financial institutions (through intermediate targets for instance)**
- **A number of public financial institutions committed to increase their support for adaptation.**

Integrating climate considerations in sector, country and business line strategies

- ***Why?*** It enables a financial institution to ensure that climate change is taken into consideration by operational teams across all economic sectors, countries, and business lines. Actions can then be prioritized in those areas with particularly high positive and negative climate impacts, those exposed to climate risks, or where there are business development opportunities.

- ***How?*** The transition to a low-GHG climate resilient development will have different implications across sectors and countries. Institutions will likely need to conduct forward-looking economic and financial analyses and define investment priorities (and exclusions) in terms of countries, sectors, and business lines. Once identified, these investment priorities will need to be included and contextualized within the respective sector-, country- and business line-related strategies.

Highlight of latest developments:

- **Guidance on climate risk management and Paris alignment has highlighted the need to set sector targets and manage both the exposure and contribution to the transition at the sector level.**
- **Financial institutions are looking at the risks and opportunities of the transition as well as aligned and non-aligned activities per sector, updating their sectoral strategies and developing sector guidance notes.**

Developing climate-related targets

- ***Why?*** It can support institutions in prioritizing activities contributing to the transition to low-GHG and climate resilient economies across the business cycle.

- ***How?*** These targets can take different forms, including a total volume of investments or a percentage of activities contributing to the transition to low-GHG and climate resilient economies. Some financial institutions are starting to also develop targets related to the real-world impacts and outcomes of their investments and financing.

Highlight of latest developments:

- **Setting a climate finance target is often a first major milestone in financial institutions' climate mainstreaming journey.**
- **It is the most widely adopted type of target and can take different forms: 1) a total volume of investments for activities that result in climate co-benefits (example: joint MDBs commitment to achieve US$ 65 billion of climate finance in 2025) 2) a percentage of activities/investments/financings dedicated to activities with climate co-benefits (example: 50% of AFD Group's financial commitments must have climate co-benefits).**
- **Financial institutions are starting to consider complementing these targets with impact targets and assessments. More research is needed on the metrics and underlying assessment methodologies to be used.**

Adopting a target to reduce investments in activities with negative climate impacts

- ***Why?*** It can help institutions send a clear message to all internal and external stakeholders on the activities that will no longer be financed by the institution, or those that are seen as needing to “transition” to low-carbon, climate resilient business models.

- ***How?*** These targets can take different forms, such as deadlines after which institutions will stop investing in – or have fully divested from – specific types of assets. In most cases, these targets are related to reporting regulations in specific countries or developed as part of strategies to manage financial risks related to climate change, or to “align” with climate goals. A growing number of financial institutions now also set targets related to their engagement strategies with clients and counterparts.

Highlight of latest developments:

- **Financial institutions are adopting these targets in relation to their climate-related financial risk strategies. They seek to manage these risks by avoiding new investments or divesting from assets viewed as overly exposed to transition or physical risk.**
- **Over 2021-2022 financial institutions noted that climate risk exposure targets leading to avoidance of sectors or geographies may be more pertinent for commercial financial institutions. In many instances, public financial institutions have a role and mandate to engage and accompany counterparties to manage and reduce exposure to climate-related risks - in some instances taking more financial risk.**
- **A number of financial institutions indicated that they now also set targets on how to support clients and counterparties aligning/managing climate-related risks.**

Adopting targets to align activities with the Paris Agreement goals

- ***Why?*** The Paris Agreement set the objective of "*making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*". Echoing this international objective, financial institutions are increasingly and voluntarily setting targets to assess and improve the consistency of their activities with climate objectives. Some jurisdictions are establishing reporting requirements on the level of alignment of institutions with climate objectives.

- ***How?*** These targets vary depending on the focus of the alignment commitment and the underlying approach and methodologies adopted to assess consistency with climate objectives. Some institutions have adopted an approach aiming to ensure that each operation is consistent with a low-GHG and climate-resilient trajectory. Other are adopting a portfolio-level perspective, comparing the climate performance of entire portfolios with a low-GHG and climate-resilient trajectory. This is an area where further technical development is underway, particularly in terms of adaptation and resilience.

Highlight of latest developments:

- **Over 2021-2022 a growing number of financial institutions committed to align all their activities with climate goals.**
- **This commitment took different forms, focusing in some instances on one of the climate goals or referring to specific assessment approaches. This is the case of "net zero" commitments focusing on the mitigation aspect and often referring to GHG assessment methodologies.**
- **The launch of the umbrella initiative GFANZ (Glasgow Financial Alliance for Net Zero) should lead to improved consistency and harmonisation within and between financial sectors in the coming years.**

Developing institutional architecture, internal guidance and processes to support the implementation of strategic climate goals

- ***Why?*** It can provide the substantial political and technical support that is needed for the development, implementation and update of an institution's climate strategy.

- ***How?*** Many institutions have created a crosscutting climate support unit or team to facilitate the uptake of the climate issue, trigger coordination and dialogue, provide technical capacity and support, and to channel any concessional funding coming from international climate funds. Its form and institutional position often depends on the individual financial institution, but they often report to high-level management and integrated into existing transversal operational support functions.

Highlight of latest developments:

- **The importance of developing an institutional architecture, internal guidance and processes to support the implementation of strategic climate goals was particularly highlighted as part of discussions on Paris alignment and transition plans.**
- **While developing an institutional architecture for climate mainstreaming, financial institutions are also mainstreaming other aspects of sustainable development (such as biodiversity or gender considerations). Over 2021-2022, biodiversity mainstreaming has gained momentum, especially with the launch of a Taskforce on Nature-related Financial Disclosures (TNFD) and the evolution of international negotiations.**

Linking climate performance to key performance indicators (KPIs) and internal incentives

- ***Why?*** It can support the acculturation of internal operational teams to this new way of conducting activities. This can also facilitate the buy-in and support of high-level management over the lifetime of the climate strategy.

- ***How?*** In line with the institution's climate strategic priorities and targets, institutions will likely need to review, adapt and in some instances create new KPIs and incentives. Bonuses and other financial incentives are used by some financial institutions over the short-term to support the acculturation of operational teams to climate-related activities. A growing number of institutions are also integrating climate change indicators and performance metrics into remuneration policies to ensure long-term buy-in for the institution's climate objectives.

Highlight of latest developments:

- **Over 2021-2022 research has highlighted the need for financial institutions to include climate considerations in KPIs and internal incentives to ensure implementation of the institution's climate objectives.**
- **Considering the different types of metrics available for this, financial institutions are prioritizing the assessment types and metrics that are the most useful and pertinent considering their strategies and objectives.**
- **Financial institutions are considering the relevance of these different metrics both for themselves as well as for assessing the integration of climate considerations by client financial and non-financial institutions.**

Building the internal capacity of management and operational teams

- ***Why?*** It ensures that all teams and functions within the organization have the necessary background, knowledge, expertise, and resources to perform the functions demanded of them to implement the institution's climate strategy.

- ***How?*** Needs for capacity building will vary from one institution to another and between the different departments of institutions. Capacity building activities may be developed to raise awareness on the basics of climate change and the institution's climate strategy within all functions of the institution. Financial institutions also develop tailored trainings for the departments that will need to use specific tools, develop new expertise etc. These programs may be developed by climate/sustainability teams or by external partners.

Highlight of latest developments:

- **A number of institutions have developed internal capacity building programmes following the adoption of a climate strategy to facilitate its implementation and are now aiming to further extend them throughout the organization (subsidiaries, country offices, etc.)**
- **These programmes, often developed by climate/sustainability teams, vary in terms of format and content. Financial institutions have identified the need for customized and practical trainings.**
- **As part of their approaches for aligning their financial intermediaries with climate goals, a number of international financial institutions are providing technical assistance or access to resources on climate mainstreaming and Paris alignment.**

Highlight of latest resources on Principle 1

How to set ambitious and measurable climate-related targets?

- Targets to foster investments in activities with climate co-benefits is the most widely adopted type of targets. Some institutions are starting to consider complementing 'input' focused targets with 'output'-focused targets looking at the impact of their investments.
- Alignment targets vary depending on the underlying assessment approach and methodologies adopted:
  - Some institutions have adopted an approach aiming to ensure that each individual operation is consistent with a low-carbon and climate-resilient trajectory.
  - Other are adopting a portfolio perspective, comparing the climate performance of their entire portfolio with a low-carbon and climate-resilient trajectory.
- Organizing trainings on a regular basis to explain why the institution has adopted this target and what this implies for operational teams is seen as a needed part of helping acculturate targets.

How to track progress on the implementation of climate action plans and objectives?

- FI are more and more tracking progress at the sector level
- FI consider that it is important to track progress in a transparent and reliable manner, with FI committing to a third-party review of progress against targets.
- Clear accountability – particularly at the senior management – is seen as an important step in ensure that targets are accepted as part of an FI's priorities. Some institutions have also developed dedicated cross-institutional committees to support and oversee the implementation of targets.

Mainstreaming climate and biodiversity considerations: experience sharing between financial institutions

- AFD is currently mainstreaming its nature positive approach building on its climate mainstreaming efforts. Biodiversity targets set in 2019 are a strong institutional driver (increase its biodiversity finance to €1 billion a year by 2025 and devote 30% of its climate finance to biodiversity-friendly operations, in line with the commitments made by France).
- AFD has developed a new governance to support biodiversity mainstreaming within the organisation, building on the climate settings, including:
  - Strong oversight of the fulfilment of targets every 3 months ensured by AFD's executive committee (chaired by AFD's CEO)
  - Dedicated HR and functions to promote mainstreaming
  - A community of "biodiversity referents" with a mandate to implement the biodiversity roadmap in their business units, with support of the dedicated team
  - Adoption of Principles for the Tracking of Nature Positive Finance and implementation of a detailed methodology, with specific criteria and valuation for each sector of intervention »

Zoom on a Supporting Institution (SI): World Bank Group Climate Change Action Plan 2021–2025

- The World Bank committed to align all new operations by July 1, 2023.
- The Action Plan includes a new WBG climate finance target, 35% on average over FY21-25, and an IBRD/IDA target of at least 50% of climate finance for adaptation.
- The Action Plan aims to support more ambitious interventions through several actions, including the introduction of Country Climate and Development Reports (CCDRs).

STOA's Climate policy

- From its inception, STOA was conceived as an innovative financing tool for the development of the African continent, the fight against climate change and, more globally, impact investing.
- STOA's Climate policy was implemented since STOA's creation, with an initial goal of financing 30% of projects with inherent climate benefits and to align its portfolio to the Paris Agreement.
- In 2020, STOA increased its ambition with a goal of ensuring that at least 50% of projects have inherent climate benefits.

Principle 2
MANAGE climate risks

Assessing the climate-related transition risks of assets and transactions

- ***Why?*** It is increasingly seen as necessary for financial institutions to assess their exposure to climate-related transition risks. These assessments are in most cases conducted on a voluntary basis as part of sound market practice; however, regulators and supervisory authorities are introducing requirements to measure, report and manage climate-related risks.

- ***How?*** Financial institutions have developed approaches, tools and methodologies to assess their exposure to future climate-related transition risk relying on forward-looking scenario analysis. This is predominately based in part on the recommendations of the Task-force on Climate-related Financial Disclosures. Approaches, tools and methodologies have been developed for different types of institutions, with some assessments conducted at the portfolio level, the project level, the asset level, the counterparty level or the country level.

Highlight of latest developments:

- **An important number of methodologies and tools are available on the market. There is now a need to further work on:**
  - **The standardization in climate risk assessment inputs. The release of the NGFS reference scenarios played an important role in this regard;**
  - **The combination of transition and physical risk methodologies.**
- **Over 2021-2022, initiatives and frontrunning institutions have further developed their climate-risk assessment methodologies. More and more financial institutions are choosing to develop in-house approaches that they can adjust and adapt internally.**
- **The role of transition plans to conduct a client level transition risk assessment is currently being considered. However, there is a need for standardized approaches and definitions to prevent the risk of inconsistency of data disclosed.**

Assessing the physical climate risks of assets and transactions

- ***Why?*** It is increasingly seen as necessary for financial institutions to identify their exposure to physical climate risks. These assessments are in most cases conducted on a voluntary basis as part of sound market practice; however, regulators and supervisory authorities are introducing requirements to measure, report and manage climate-related risks.

- ***How?*** Financial institutions have developed approaches, tools and methodologies to assess their exposure to future physical climate risk relying on forward-looking scenario analysis. This is predominately based in part on the Recommendations of the Task-force on Climate-related Financial Disclosure. Approaches, tools and methodologies have been developed for different types of institutions, with some assessments conducted at the portfolio level, the project level, the asset level, the counterparty level or the country level.

Highlight of latest developments:

- **An important number of methodologies and tools are available on the market. There is now a need to further work on:**
  - **The standardization in climate risk assessment inputs. The release of the NGFS reference scenarios played an important role in this regard;**
  - **The combination of transition and physical risk methodologies.**
- **As institutions need to move quickly, they cannot wait to have the perfect information and should start with what is available and improve progressively.**
- **In some jurisdictions (such as France), physical risks will be part of the regulatory stress testing and therefore are becoming of equal importance for some actors who have historically been more focused on transition risks**

Assessing the climate-related liability risks of assets and transactions

- ***Why?*** It is increasingly seen as necessary for financial institutions to identify their exposure to climate-related liability risks. In most cases these assessments are conducted on a voluntary basis as part of sound market practice; however, regulators and supervisory authorities are introducing requirements to measure, report and manage climate-related risks.

- ***How?*** To date, progress in this area remains exploratory. Financial institutions have started to develop initial approaches, tools and methodologies to assess their exposure to litigation or legal climate risk. This is predominately based in part on the Recommendations of the Task-force on Climate-related Financial Disclosure.

Highlight of latest developments:

- **In 2021-2022 financial institutions have started to work on the climate-related liability risks of assets and transactions with initial guidance provided by UNEP FI and the NGFS.**

Integrating results of risk analysis into risk management processes

- ***Why?*** In addition to assessing climate-related risks, financial institutions must also determine how to best integrate both qualitative and quantitative results into existing financial and non-financial risk management processes. This is a necessary step to ensure that assessments inform both strategic and operational decisions on the financial risk exposure related to climate change.

- ***How?*** The Task-force on Climate-related Financial Disclosures provided guidance to help institutions include climate considerations in risk management processes. Often building on these principles, financial institutions are developing varying approaches to integrate these risks into broader risk management practice. To date, financial institutions looking at this issue have principally conducted pilot climate risk assessments and analyzed outcomes to identify their level of exposure and the assets and activities that are most at risk. They developed risk management processes on that basis.

Highlight of latest developments:

- **It is currently difficult for financial institutions to integrate assessment results into other quantified risk assessments. It is often important to adapt the presentation of results for decision-making.**
- **Scenario analysis can be particularly useful to ensure proper strategic integration of the deep uncertainty around the low-carbon transition. Scenario analysis is a pragmatic process that is suited to supporting an institution's decision-making in a context of deep uncertainty. It structures a relatively broad exploration of potential futures while restricting the field of exploration to focus on what could impact the institution.**

Highlight of latest resources on Principle 2

Climate Risk Workshop of the 2021 Annual Assembly

- Developing the risk assessment methodology internally helps a financial institution understand clients' scores and engage with them on that basis.
- Financial institutions have identified links between transition risk assessments and alignment assessments: if an institution is "Paris aligned" it is probably less exposed to climate-related transition risks.
- More and more institutions are exploring how to use "transition plans" produced by clients in the assessment of transition climate-related risks – and when possible resilience. Practice remains variable and many clients have not yet produced these plans.
- The links between climate and biodiversity risk assessments will be a key area of focus following-up on the launch of the Taskforce on Nature-related Financial Disclosures (TNFD).

Zoom on a Supporting Institution: FONPLATA

- FONPLATA developed a Climate Risk and Vulnerability Assessment tool that considers key climate data to improve project design.
- This relatively inexpensive Rapid CRVA tool carries out comprehensive risk analysis on compound extreme weather events. It helps to avoid risks of poor adaptation to climate scenarios and high future adaptation costs.
- At present FONPLATA staff is being trained to be able to fully and independently manage the tool and the corresponding data sets.

Zoom on a Supporting Institution: Development Bank of Southern Africa

- In January 2021 DBSA adopted an Integrated Just Transition Investment Framework
- An integrated energy sector investment framework that incorporated the IRP was developed to assist with:
  - Assessing investment risks associated with the energy transition to DBSA's energy investment portfolio
  - Strategic positioning of the DBSA as a responsible energy sector investor on the African continent
  - Adoption of appropriate measures to enable the bank to identify, quantify and mitigate transition risk

Scenario analysis of transition risk in finance – towards strategic integration of deep uncertainty

- As recommended by the TCFD, scenario analysis can be particularly useful to ensure proper strategic integration of the deep uncertainty around the low-carbon transition.
- Scenario analysis is a pragmatic process that is suited to supporting an institution's decision-making in a context of deep uncertainty. It structures a relatively broad exploration of potential futures while restricting the field of exploration to focus on what could impact the institution.
- In addition, scenario analysis is much more than a purely technical approach providing an output metric. It is part of a mainstreaming process of transition risk and deep uncertainty in an institution's strategic thinking, planning and implementation processes.

Understanding and managing transition risk for development banks

- Development banks assessment objective is not to stop financing their clients but to engage with them.
- Their climate risk management approach is a key part of their Paris alignment approach
- DFIs risk appetite framework is a key area of discussion for the future

Principle 3
PROMOTE climate smart objectives

Offering green products and services

- ***Why?*** Many financial institutions are developing and using a variety of targeted financial instruments to finance climate-related activities and investments to seek out new investment opportunities.

- ***How?*** While "green bonds" are the most well-known climate-related product, institutions have also developed climate-related loans or intermediated debt financing products. These products typically use climate-related eligibility criteria. This in turn implies that institutions assess investments against these criteria – as well as develop a system for ex-ante assessment, monitoring, reporting and verifying to ensure that criteria are met. Additionally, institutions may use a robust external auditing of climate-related criteria, such as via second party opinions.

Highlight of latest developments:

- **The green bond market has continued to expand to pass USD2tn by the end of Q3 2022. An increasing number of Supporting Institutions are issuing green bonds and examples such as Amundi Planet Emerging Green One (EGO) developed by IFC and Amundi enable the dissemination of this practice in emerging markets.**
- **According to the 2021 Global landscape of Climate Finance:**
  - **"Market rate debt, through project or corporate finance, was the largest financial instrument used to channel climate finance in 2019/2020, at USD 337 billion per year and accounting for 53% of the total. Equity investments and grants accounted for 33% and 6% of total climate finance, respectively".**
  - **"Adaptation finance gained momentum in 2019/2020, increasing 53% to an annual average of USD 46 billion from USD 30 billion in 2017/2018; however, adaptation still accounts for just 7% of total climate finance based on available data."**
- **To further increase climate finance in developing countries, financial institutions highlight that de-risking is key.**
- **An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks was developed for the G20 and presented recommendations for boosting MDBs' investing capacity.**

Developing business among clients and market segments that contribute to achieving climate goals

- ***Why?*** It helps to promote the demand for climate-related products and services, as well as creates opportunities for growth and returns for the financial institution.

- ***How?*** Financial institutions use a variety of approaches to identify new market opportunities. In some cases, this may be linked to the development of tailored climate-related products and services designed to create opportunities and support growth in specific market segments. Financial institutions may engage directly with their clients and counterparties on potential opportunities for business development related to the low-GHG resilient transition.

Highlight of latest developments:

- **Financial institutions have identified the need to support the development of projects as they identify a lack of projects in renewable energy for example.**
- **A number of public finance institutions have developed large programs with the support of the Green Climate Fund.**
- **In addition to specific financing instruments and products, international finance institutions are further developing their capacity building programs for local financial institutions to help them mainstream climate consideration in their organization and develop their green products and service offering.**

Accessing public climate finance

- ***Why?*** Public climate finance includes the climate funds such as the Green Climate Fund, the Adaptation Fund or the Green Environmental Facility as well as the climate activities of international finance institutions. These resources can help institutions to both seek out new investment opportunities and increase the impact of their investments by developing and/or financing transformational projects and programs.

- ***How?*** To access climate finance of IFIs, financial institutions may contact IFIs on a bilateral basis or aim to benefit from financing through a facility. To access climate finance from climate funds, they can either submit funding proposals through an accredited entity or gain "direct access" by becoming an accredited entity to these funds. The requirements and criteria as well as reporting requirements vary.

Highlight of latest developments:

- **In 2022, Supporting Institutions of the initiative developed the following projects and programs with the Green Climate Fund:**
  - **FP195: E-Motion: E-Mobility and Low Carbon Transportation – CAF**
  - **FP194: Programme for Energy Efficiency in Buildings (PEEB) Cool – AFD**
  - **FP190: Climate Investor Two – FMO**
  - **FP189: E-Mobility Program for Sustainable Cities in Latin America and the Caribbean – IDB**
  - **FP185: Climate Change: The New Evolutionary Challenge for the Galapagos – CAF**
  - **FP183: Inclusive Green Financing Initiative (IGREENFIN I) – IFAD**

    FP182: Climate-smart initiatives for climate change adaptation and sustainability in prioritized agricultural production systems in Colombia (CSICAP) – CAF

Mainstreaming Climate in Financial Institutions

Using risk sharing or blended finance products to mobilize additional finance

- ***Why?*** The blending of public and private funds can help overcome a range of investment barriers (e.g., market or political) as well as reduce the risk often perceived by private financial institutions around climate-related investments. This can improve access to capital and the terms of finance in countries, sectors and technologies often seen high-risk.

- ***How?*** A range of different tools may be used depending on the level of maturity of markets and technologies and the specific market barriers projects and companies may face. These include instruments such as guarantees, insurance, currency hedging, technical assistance grants and first loss capital from development agencies. Different combinations of these forms of concessional funds and instruments are typically used by development banks and philanthropic sources to “crowd in” or “leverage” commercial investment in both developed and developing countries.

Highlight of latest developments:

- **According to the 2021 Landscape of Climate Finance, “Multilateral DFIs were the most common source of public blended climate finance from 2015-2017 (35% of all public blended climate finance commitments), while national/bilateral DFIs became more active in blended climate finance between 2018-2020 (31% of commitments).”**
- **Institutions have identified several areas of focus to meet the level of ambition of climate objectives:**
  - **Need for scalability**
  - **Need for standardization – especially standardization of contracts**
  - **Need to support governments with debt sustainability – especially for the most vulnerable countries**

Mainstreaming Climate in Financial Institutions

Ensuring that climate considerations are taken into account in decision making and due diligence across all products and services

- ***Why?*** As the transition to a low-carbon and climate-resilient economy is expected to require actions affecting all sectors of the economy, an institution may need to ensure that climate considerations are considered across all products and services.

- ***How?*** Climate and sectoral strategies as well as screening criteria are often used to make all activities either consistent with, or contributing to, an institution's priorities and targets on climate change. The deployment of screening criteria may require training capacity and awareness-building among staff – as well as the provision of additional operational resources so that criteria are used appropriately and effectively.

Highlight of latest developments:

- **Over 2021-2022, a number of financial institutions have developed or updated their sector-policies in order to "align" their sector policies and screening methodologies with climate objectives and manage climate-related financial risks - often starting with the energy sector but also addressing transport, agriculture and other sectors.**
- **Guidance on specific parts of the portfolio such as retail of SMEs remain more complex to address.**

Engaging with clients on climate change risks and opportunities and alignment with the Paris Agreement

- ***Why?*** It can help foster the transition of clients and counterparties, and thus indirectly mitigate climate-related financial risks and ensure consistency with the climate objectives.

- ***How?*** Outcomes of alignment and climate risks assessments can help an institution identify activities that are not "aligned" with climate objectives or that may be exposed to climate-related financial risks, today or in the future. Engaging with these clients or associated counterparties can help foster the alignment of their portfolio and reduce their exposure to climate-related risk. Within the financial sector, initiatives such as Climate Action 100+ are developing common approaches for institutions to engage with them.

Highlight of latest developments:

- **Financial institutions have started to develop approaches for assessing the alignment and climate-related risk exposure of their clients and to engage with them clients on this.**
- **Across the financial industry, the use of forward-looking transition and resilience plans appears as an important tool to exchange on and develop an engagement strategy with clients. Further guidance on the content of these documents is being prepared by different organisations.**
- **International finance institutions are developing capacity building mechanisms for their clients, to support this engagement process.**

Using exclusion and divestment approaches strategically for activities with adverse climate impacts

- ***Why?*** Institutions are establishing exclusion and divestment approaches for activities, technologies or sectors that are seen as inconsistent with their climate-related strategies and goals as in some instances, it can reduce adverse impact on the transition to low-GHG and climate-resilient economies and/or exposure to climate-related financial risk.

- ***How?*** Criteria for exclusion or divestment rely on the identification of activities and technologies that are inconsistent with climate transition scenarios. Assets and companies that surpass a defined level of exposure to these activities or technologies are excluded or subject to divestment. Today, discussions focus on how to ensure an impactful contribution to decreasing emissions or increasing resilience in the real economy by the strategic use of divestment and exclusion on one hand, and engagement with companies and counterparties on the other hand.

Highlight of latest developments:

- **Over 2021-2022, a number of financial institutions have updated their exclusion list on emissive activities or adopted revised targets to stop investments in specific activities.**
- **Discussions across the financial sector have highlighted the need to develop approaches that maximize the impact on the real economy – often in favour of robust engagement strategies over divestments strategies.**
- **The Asian Development Bank is currently developing and testing a new mechanism aiming to accelerate the transition from fossil fuels to clean energy by retiring or repurposing coal power plants.**

Highlight of latest resources on Principle 3

What does a "just low-carbon and resilient transition" in the energy sector imply for financial institutions?

- The EIB has revised its EIB energy lending policy: Supporting the energy transformation
- CDC Group' developed a methodology to assess the alignment of natural gas power plant with the Paris Agreement

Finance instruments and engagement strategies for the energy transition

- DBSA launched two programmes with the Green Climate Fund (GCF):
  - The embedded generation investment programme for projects that have no track record of successfully reaching financial close
  - The Climate Finance Facility: a lending facility that aims to address market constraints play a catalytic role with a blended finance approach. This facility is based on the Green Bank model.
- DBSA has a long experience with its Renewable Energy IPP Programme
- In 2015, FMO in partnership with Phoenix InfraWorks established the Climate Investor One facility to encourage private sector investment into renewable energy projects in developing countries.

Supporting a low-carbon resilient transition in the transport sector: Examples of SI Practice

- The Islamic Development Bank has partnered with SLOCAT partnership on sustainable low-carbon transport. The objective of this partnership is to:
  - Provide support to IsDB headquarters and in-country staff in developing policies on sustainable transport and climate change.
  - Build analysis of trends adding value to compiling data and conduct gap analysis (e.g., opportunities for expanding key policies).
  - Provide evidence-based policy recommendations tailoring measures to sub-regional and income group contexts
- EBRD issued policy papers:
  - EBRD infrastructure policy series (Going Electric #16)
  - Policy paper "Going Electric – A pathways to Zero Emission Buses"
  - Policy paper "Driving change - reforming urban bus services"
- EBRD has identified a number of different funding models and tested appetite for these different funding models.

Transformative climate finance in the context of the covid-19 recovery

- Climate finance can be defined as "Any funds used by developing countries to meet climate goals"
- Today there is not enough money to meet developing country climate goals but climate finance can be particularly catalytic and transformative
- The World Bank released a framework for transformative climate finance, which identified eight levers for deploying climate finance

Principle 4
IMPROVE climate performance

Measuring and tracking the volume or share of activities and investments reducing greenhouse gas emissions

- ***Why?*** It provides information on and helps to monitor the volume or relative share of activities contributing to the mitigation objective of the Paris Agreement. This tracking can also be used to report on the contribution to international climate finance goals, particularly among development banks.

- ***How?*** Institutions often use taxonomies or positive lists of activities that reduce GHG emissions to classify projects or assets held in their portfolios. This is the case of the group of multilateral development banks (MDBs) and the International Development Finance Club (IDFC), which developed Common Principles for Climate Mitigation Finance Tracking. Other regional or national taxonomies such as the EU taxonomy help to classify companies held in portfolios, and in turn measure the volume of investments contributing to the mitigation objective.

Highlight of latest developments:

- **In 2021, the different "net zero" coalitions of financial institutions across the sector released guidance to assess the reduction of financing activities generating greenhouse gas emissions and were gathered under an umbrella group: the Glasgow Financial Alliance for Net Zero (GFANZ).**
- **In 2021, the group of Multilateral Development Banks (MDBs) and the International Development Finance Club (IDFC) updated their Common Principles for Climate Mitigation Finance Tracking.**

Measuring and tracking the volume or share of activities and investments building climate resilience

- ***Why?*** It provides information on and helps to monitor the volume of activities contributing to the adaptation objective of the Paris Agreement. This tracking can also be used to report on the contribution to international climate finance goals, particularly among development banks.

- ***How?*** Many institutions rely on a context- and location-specific approach to track adaptation finance. This is for example the case of the group of multilateral development banks (MDBs) and the International Development Finance Club (IDFC), which have developed Common Principles for Climate Change Adaptation Finance Tracking. Other regional or national taxonomies such as the EU taxonomy also help to measure the volume of investments significantly contributing to the adaptation objective relying on this approach.

Highlight of latest developments:

- **Building on the MDBs-IDFC Common Principles for Climate Change Adaptation Finance , the EU Taxonomy entered into force adopting a process-based approach for tracking adaptation finance.**
- **Following up on the development of physical climate risk assessment tools and methodologies, but recognizing that climate risk management may not always result in a contribution to adaptation of national economies, a number of coalitions and organisations have started to work on the development of principles and guidance to assess the alignment of portfolios with the adaptation objectives and the contribution to adaptation.**

Measuring the real-world impact of climate-related activities and investments

- ***Why?*** Impact can be defined as changes in the real economy that have a direct or indirect effect on climate change mitigation or adaptation. Measuring it provides transparency on and can assist in increasing the real-world contribution of climate-related finance and investment.

- ***How?*** The impact of mitigation activities is often quantified using GHG emissions metrics, however complementary metrics are also often seen as necessary. Metrics for measuring impact for adaptation activities are often context-specific and fit-for-purpose to accommodate the wide range of activities that may contribute to the adaptation of economies and societies. Institutions may distinguish the impact of counterparties and underlying assets financed, and the direct impact stemming from its own choices and means of intervention.

Highlight of latest developments:

- **While an important number of financial institutions have committed to "align" their operations with climate goals, a number of voices called to better distinguish real world impact from virtual emissions reductions as a result of portfolio reallocation**
- **The COP26 Finance Sector Expert Group for Race to Zero and Race to Resilience (FSEG), established by the High-Level Climate Champions published a discussion paper on this issue.**

Assessing the alignment of all activities and investments against national and international climate goals

- ***Why?*** It helps financial institutions to monitor the alignment of their activities today and understand how they may need to evolve in the future to be consistent and contribute to the goals of the Paris Agreement – including the mitigation goal, the adaptation goal, and the goal of making finance flows consistent with a low-GHG climate-resilient development pathway.

- ***How?*** A range of methodologies are currently being developed to assess alignment with climate goals. At the portfolio level, tools exist to help institutions measure the alignment of their portfolios with a given temperature trajectory. At the activity or project level, screening processes have been developed relying on taxonomies and decision trees to assess consistency with the three climate goals. At the entity level, a few financial institutions have started to assess their counterparts' consistency or preparedness for the transition.

Highlight of latest developments:

- **In 2021, the different "net zero" coalitions of financial institutions released guidance to assess the reduction of financing activities generating greenhouse gas emissions and gathered under the Glasgow Financial Alliance for Net Zero (GFANZ).**
- **The Group of Multilateral Development Banks developed a Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations.**
- **The Group of European DFIs adopted an harmonised Paris Alignment approach.**
- **The International Development Finance Club launched its Operationalization Framework on Aligning with the Paris Agreement.**

Measuring and tracking ‘unaligned’ activities and investments

- ***Why?*** It helps to identify activities and investments that will have to transition or might become ‘stranded” assets in the future.

- ***How?*** Taxonomies and positive lists can help identify companies, assets and activities that are currently unaligned; have a possibility to transition and become aligned; or pose a risk of “significant harm” vis-à-vis climate goals and have a strong risk of becoming stranded assets. Methodologies assessing a portfolio alignment with low-carbon trajectory can identify assets of a portfolio that are not aligned or compatible with a chosen transition scenario. Further methodological developments are however underway to improve these approaches.

Highlight of latest developments:

- **A number of financial institutions have updated sector policies and defined specific criteria defining what activities or projects are aligned or not.**
- **BII developed and publicly released its methodology for assessing the alignment of natural gas power plants.**
- **Over the past years, the concept of transition finance has appeared focusing on the dynamic process of becoming “aligned”, rather than providing a point in-time assessment of what is already aligned and non-aligned, with the objective of decarbonizing the most polluting and hard-to-abate industries.**

Highlight of latest resources on Principle 4

GHG accounting to assess the consistency of a portfolio with the temperature goal of the Paris Agreement

- As part of Paris Alignment approaches, GHG accounting may be used for:
  - Measuring the climate performance, at company or portfolio level as part of Scenario/Temperature Alignment Methodologies
  - Target setting
- FMO uses the PCAF methodology for emissions accounting and reporting
- FMO identified a number of challenges for PCAF application in target setting context:
  - Scope
  - Data quality
  - Carbon credits

Zoom on a SI: ADB Energy Transition Mechanism

The ADB has developed an Energy Transition Mechanism (ETM), a scalable, collaborative initiative developed in partnership with ADB developing member countries (DMCs) that aims to leverage a market-based approach to accelerate the transition from fossil fuels to clean energy.

Aligning with the Adaptation goal of the Paris Agreement

Organisations and initiatives have started to explore how financial institutions can align with the adaptation goal of the Paris agreement:

- The OECD released a framing paper on climate-resilient finance and investment
- IIGCC released a discussion paper to support the development of a Climate Resilience Investment Framework
- UNEP FI is also conducting new research on this topic, building on their TCFD pilot expertise.

Workshop of the FI Group on Aligning Financial Chains with the Paris Agreement: How to assess the level of "alignment" of a counterparty?

MDBs and DFIs are developing capacity building mechanisms to support for the alignment of their financial counterparties

- The EBRD will be able to provide support through its Corporate Climate Governance Client Advisory Facility, which supports EBRD clients in improving their practices in the areas of governance, strategy, risk management, metrics and targets.
- The EIB Group will engage with interested counterparties in scope to encourage best practice in developing an alignment strategy.
- Alongside existing technical assistance programs around climate change often linked to its earmarked climate credit lines, AFD has been applying a pro-climate approach for its client banks aiming to support their transformation and the reinforcement of their strategic and operational framework in order to better integrate climate change.

Principle 5
ACCOUNT for your climate action

Disclosing an institution's climate change financial risk exposure

- ***Why?*** It is increasingly seen as standard practice, may be requested by financial regulators, and provides information to shareholders, clients and counterparties on the institution's exposure to climate risks.

- ***How?*** The Taskforce on Climate-related Financial Disclosures provided recommendations and guidance on how to disclose an institution's climate change financial risk exposure. This has been used by a number of financial institutions to develop and release TCFD reports on a voluntary basis.

Highlight of latest developments:

- **Over 2021-2022 the share of companies and financial institutions disclosing TCFD-aligned information has continued to grow and there have been further significant actions by regulators and international standard setters to use the TCFD recommendations in developing climate-related reporting requirements and standards — including but not limited to proposals released earlier this year by the U.S. Securities and Exchange Commission, the International Sustainability Standards Board, and the European Financial Reporting Advisory Group.**

Disclosing an institution’s climate-related financial risk management strategy

- ***Why?*** It is increasingly seen as standard practice, may be requested by financial regulators, and provides information to shareholders, clients and counterparties on the strategic and risk management decisions on managing those risks.

- ***How?*** The Taskforce on Climate-related Financial Disclosures provided recommendations and guidance on how to disclose an institution’s climate-related financial risk management strategy. A number of financial institutions have already released TCFD reports on a voluntary basis.

Highlight of latest developments:

- **While disclosing their institution’s climate related financial risk management strategy, most financial institutions are presenting how this strategy relates to their broader climate commitments and climate strategy – detailing both how the institution aims to manage the impact of climate change on its operations as well as its own impact on climate change and the transition to a low-carbon climate resilient economy.**

Disclosing the volume or share of climate-related activities and investments

- ***Why?*** It provides information to shareholders, clients and counterparties on the volume of activities specifically contributing to climate objectives. International development finance institutions are already asked to report on this as part of North-South climate finance reporting. As a growing number of countries and regions are developing taxonomies for climate-related activities, mandatory reporting for all financial institutions could accelerate in the coming years.

- ***How?*** Institutions may publicly disclose the results of the tracking of the volume or share of climate-related activities and investments. Institutions may choose to report results of this measurement individually or within groups or initiatives of financial institutions – such as the Multilateral Development Banks (MDBs) or the International Development Finance Club (IDFC). In the case of mandatory reporting, a specific taxonomy may be required as a reference and specific requirements may be asked by the regulator.

Highlight of latest developments:

- **The 2021 total financing by multilateral development banks surpassed the 2025 climate finance goals. Those goals amounted to an expected collective total of US$ 50 billion for low- and middle-income economies, and at least US$ 65 billion of climate finance globally, with a projected doubling of adaptation finance to US$ 18 billion, and private mobilisation of US$ 40 billion.**
- **In 2020, IDFC members reported total green finance commitments of $185 billion. This represents a 6% decrease from 2019, primarily driven by the impact of the COVID-19 pandemic.**
- **In 2021 the EU taxonomy entered into force, requiring financial institutions to report on sustainable investments.**

Disclosing the volume of activities with adverse climate impacts

- ***Why?*** It provides information to clients and counterparties on the volume of activities with adverse climate impacts. In jurisdictions such as in the European Union, this is asked as part of reporting requirements on adverse sustainability impacts.

- ***How?*** Institutions may publicly disclose the results of the measurement of the volume of activities with adverse climate impacts. Institutions may choose to report results of this measurement individually or within groups or initiatives of financial institutions. In the case of mandatory reporting, a specific taxonomy may need to be used as a reference and specific requirements may be asked by the regulator.

Highlight of latest developments:

- **In 2022 the European Commission adopted a technical standard to be used by financial market participants when disclosing sustainability-related information under the Sustainable Finance Disclosures Regulation (SFDR), which requires financial market participants to communicate on the principal adverse impacts of their investment decisions on sustainability factors.**

Disclosing the impacts of climate-related activities and investments

- ***Why?*** It may be requested by financial regulators and provides information to shareholders, clients and counterparties on the real-world contribution of the institution's investments to climate objectives.

- ***How?*** Institutions may complement their reporting on the volume or share of climate-related activities and investments with reporting on the impacts of these activities. Institutions may choose to report results of this measurement individually as part of their individual annual reports and/or within groups or initiatives of financial institutions. In the case of mandatory reporting, specific methodological requirements may be asked by the regulator.

Highlight of latest developments:

- **In 2021, the TCFD developed guidance on metrics, targets, and transition plans to reflect evolution in disclosure since 2017. It describes types of information organizations could disclose on financial impacts of climate change as well as real-world examples.**
- **This issue remains a key area for further work.**

Disclosing the overall alignment of activities with international climate goals

- ***Why?*** It provides information to stakeholders, clients and counterparties on the consistency and contribution of the institution's activities to low-carbon climate-resilient scenarios. Disclosure on alignment may become increasingly expected as many financial institutions have announced voluntary commitments to align with climate goals with an expectation that they will publicly disclose progress. Furthermore, regulators may request disclosure on this issue and the TCFD has begun work on this issue.

- ***How?*** Financial institutions may publicly disclose the results of their alignment assessment with international climate goals. They may choose to report these results individually as part of their individual annual reports and/or within groups or initiatives of financial institutions. In the case of mandatory reporting, specific requirements may be asked by the regulator. Considering the heterogeneity of methodologies and their level of maturity, jurisdictions do not require institution to rely on specific methodologies yet.

Highlight of latest developments:

- **In 2021, the different "net zero" coalitions of financial institutions across the sector released guidance to assess the reduction of financing activities generating greenhouse gas emissions as well as annual reporting requirements.**

Highlight of latest resources on Principle 5

2021 Joint Report on Multilateral Development Banks' Climate Finance
- Worldwide 2021 figures surpass 2025 climate finance goals, with global mitigation finance of nearly US $63 billion
- Global adaptation finance reaches over US$ 19 billion
- The amount of mobilised global private finance stands at US$ 41 billion

IDFC Green Finance Mapping 2021
- In 2020, cumulative green finance commitments by IDFC members surpassed the $1 trillion mark since the Paris Agreement was signed.
- In 2020, IDFC members reported total green finance commitments of $185 billion. This represents a 6% decrease from 2019, primarily driven by the impact of the COVID-19 pandemic.
- Adaptation finance continued to grow, increasing by 42% over 2019 and more than fivefold compared to 2016 to reach $27.5 billion.

Net Zero Asset Owner Alliance - Target Setting Protocol
- Reporting on progress is firmly rooted in the Alliance Commitment. Members have committed to publish targets and report on progress in line with Article 4.9 of the Paris Agreement. For the Alliance and its members, it is important to communicate on progress publicly and transparently both individually and collectively.

Net-Zero Banking Alliance – Commitment Statement
- Bank signatories committed to publish annually and share with UNEP FI for review, to monitor consistency with the UN Race to Zero criteria and evidence that action is being taken in line with the commitments made here:
    - progress against absolute emissions and/or emissions intensity targets following relevant international and national GHG emissions reporting protocols and/or climate portfolio alignment methodologies;
    - progress against a board-level reviewed transition strategy setting out proposed actions and climate-related sectoral policies; and
    - Disclosure for key sectors will be made within one year of setting of the target.

TCFD report – Guidance on Metrics, Targets, and Transition Plans
- In 2021, the Task Force developed guidance on metrics, targets, and transition plans to reflect evolution in disclosure since 2017.
- It reinforces key characteristics of effective disclosure of climaterelated targets, including the importance of interim targets
- Additionally, it assists companies with disclosing information related to their plans to transition to a low-carbon economy
- Finally, it describes types of information organizations could disclose on financial impacts of climate change as well as real-world examples

Mainstreaming Climate in Financial Institutions

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in Financial Institutions

Thank you.

www.mainstreamingclimate.org