MAINSTREAMING CLIMATE ACTION WITHIN FINANCIAL INSTITUTIONS

Five Voluntary Principles

Why care about climate change?

Climate change is a fundamental threat to sustainable investment and development. Many financial institutions recognize that sustainable development requires addressing climate change and its impacts. While renewables and other clean energy investments begin to scale, the increased frequency of extreme weather tied to climate change is already having a direct impact on people and economies, putting them at risk. Countries throughout the world are confronted by the challenge of how best to direct investments and place their economies and societies on low-carbon, climate resilient development pathways. Different categories of economic actors need to manage risks and deal with the uncertainties related to the future effects of climate change, while harnessing the opportunities of new climate friendly development models.

The financial industry – in particular – has a key role and interest in addressing these changing risks, as well as financing shifts in market demand and supply. Public and private financial institutions need not only to adapt to but also to anticipate this new reality.

Building consensus around a set of principles for effectively mainstreaming climate change considerations within financial institutions will help institutions to be best placed to capture opportunities, as well as mitigate risks to their fundamental business.

What can be done about it?

Financial institutions have the ability to direct capital and demonstrate to markets the opportunities, risks and potential returns of investments. They play a pivotal role in helping investments and assets support implementation of low-carbon, climate resilient development pathways.

To deliver climate smart financing at scale, and to achieve core business objectives and obligations, financial institutions will need to deepen existing efforts to integrate climate change considerations systematically and explicitly across all levels of its strategies, programs and operations. In order for financial institutions to address climate change, two simultaneous activities are likely required:

- scaling up capital for the low-carbon transition; and
- addressing the risks posed by climate change.

How can financial institutions adapt and be pro-active?

“Mainstreaming” climate change considerations throughout financial institutions’ operations, and in their investing and lending activities, will enable financial institutions to deliver better, more sustainable, short-term and long-term results – both developmentally and financially. “Mainstreaming” by definition implies a shift from financing climate activities in incremental ways, to making climate change – both in terms of opportunities and risk – a core consideration and “lens” through which institutions deploy capital. Based on practices implemented by many types of financial institutions worldwide over the last two decades, we offer the following Five Voluntary Principles for Mainstreaming Climate Change to support and guide financial institutions moving forward in the process of adapting to and promoting climate smart development.

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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.

Organizations supporting the development and ongoing work on these Voluntary Principles