MAINSTREAMING Climate Action within Financial Institutions

Emerging Practices
The following Organizations are Supporting Institutions and have contributed to the production of this Emerging Practice Paper:
Mainstreaming Climate Action within Financial Institutions
Emerging Practices
This report was written by a group of financial institutions, including Agence Francais de Development (AFD), the Africa Development Bank (AfDB), Asian Development Bank (ADB), CAF Latin American Development Bank (CAF), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Japan International Cooperation Agency (JICA), KfW Bankengruppe (KfW), and the Multilateral Investment Guarantee Agency (MIGA). The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of these institutions, their Board of Executive Directors, or the governments they represent.

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# TABLE OF CONTENTS

Acknowledgements ................................................................................................................................. v  
Background.......................................................................................................................................................... vii  
Introduction .......................................................................................................................................................... x  
Purpose and Approach ....................................................................................................................................... xi  
Complementary Initiatives........................................................................................................................................ xii  

**Principle 1: COMMIT to Climate Strategies** ................................................................................................. 1  
Introduction .......................................................................................................................................................... 1  
Senior Management Leadership .......................................................................................................................... 2  
Explicit Strategic Priorities, Policy Commitments and Targets ........................................................................... 2  
Illustrative Elements................................................................................................................................................ 2  
Some Lessons from Emerging Practice in Action.................................................................................................. 3  

**Principle 2: MANAGE Climate Risks** ......................................................................................................... 4  
Introduction .......................................................................................................................................................... 4  
Assessing Portfolio, Pipeline and New Investments ............................................................................................. 5  
Work with Clients, Stakeholders to Assess and Manage Climate Risk ................................................................. 6  
Illustrative Elements................................................................................................................................................ 6  
Some Lessons from Emerging Practice in Action.................................................................................................. 6  

**Principle 3: PROMOTE Climate Smart Objectives** ...................................................................................... 8  
Introduction .......................................................................................................................................................... 8  
Promoting Climate Action with Clients, Stakeholders ......................................................................................... 9  
Financial Products and Services to Address Climate Change ................................................................................ 9  
Promote Knowledge Sharing and Dissemination .................................................................................................. 9  
Illustrative Elements................................................................................................................................................ 9  
Some Lessons from Emerging Practice in Action.................................................................................................. 10
Principle 4: IMPROVE Climate Performance

Introduction ............................................................................................................................................................................. 11
Establishing the Tools and Indicators to Address Climate Change Priorities ................................................................. 12
Illustrative Elements .................................................................................................................................................................. 12
Some Lessons from Emerging Practice in Action ............................................................................................................... 13

Principle 5: ACCOUNT for Your Climate Action

Introduction ............................................................................................................................................................................. 15
Climate and Carbon Disclosure: GHG and Portfolio Footprint, Climate, Water and Forest Risks ......................... 16
Climate Finance Reporting .......................................................................................................................................................... 16
Illustrative Elements ................................................................................................................................................................. 16
Some Lessons from Emerging Practice in Action .................................................................................................................. 17

Annex A: Methodology for Collecting Case Studies ................................................................................................................. 18

Annex B: Collection of Emerging Practices Case Studies ....................................................................................................... 20
This paper was prepared by the World Bank Group and Agence Francais de Development (AFD) on behalf of, and in collaboration with, the Africa Development Bank (AFDB), Asian Development Bank (ADB), CAF Latin American Development Bank (CAF), Credite Agricole S.A., Cassie des Depots Group (CDC), Development Bank of South Africa (DBSA), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Japan International Cooperation Agency (JICA), KfW Bankengruppe (KfW), and the Multilateral Investment Guarantee Agency (MIGA).

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The photographs used in this paper were sourced from Joana Francisca Das Nes Lopes/World Bank, Curt Carnemark/World Bank, Scott Wallace/World Bank, Arne Hoel/World Bank, Carl Gustav/World Bank, and the World Bank stock photos.
This Emerging Practices Paper accompanies the five voluntary Principles for Mainstreaming Climate Action Within Financial Institutions ("Principles"), which are reproduced in Box 2. The objective of this paper is to illustrate some of the many ways financial institutions currently integrate climate change considerations into their operations, lending and advisory services. This paper is a “snapshot” of existing practices from Supporting Institutions; those showcased here are by no means exhaustive, nor are they meant to be prescriptive.

The Principles aim to support and guide financial institutions moving forward in the process of adapting to and promoting climate smart development. These Principles have been developed based on practices implemented by financial institutions worldwide over the last two decades. They recognize that addressing climate change requires simultaneously (i) seeking out and scaling up low-carbon opportunities, and (ii) addressing risks posed by climate change. Institutions that support the Principles realize they play a pivotal role in scaling up and directing financing toward investments and assets that are necessary for transitioning to a global low-carbon, resilient economy.

This Emerging Practices Paper complements the Principles with examples of existing practices from financial institutions. The paper illustrates some of the many ways public and private financial institutions—many with different clients and business models that drive the demand for financial services—are working to progressively integrate climate change considerations across policies, approaches, tools and operations. It aims to facilitate learning and knowledge exchange on practical approaches, and is not intended to be prescriptive in any way.

As more financial institutions progressively mainstream climate change into their operations, approaches and tools are likely to evolve and improve. This paper includes examples from a range of financial institutions—both public and private. The practices presented here are often the result of multiple attempts, refinements and lessons from implementation. Some reflect many years of experience and common methodologies or approaches that are applied by many institutions today. Others touch on emerging approaches that are just beginning to be tested and considered, with implementation still in the early days. In many cases, efforts to develop tools or internal

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**BOX 1 What Is a Supporting Institution?**

A "Supporting Institution" is a financial institution whose management has publically confirmed their support for the five voluntary Principles for Mainstreaming Climate Action within Financial Institutions, and is interested in participating (on a voluntary basis) in the ongoing knowledge sharing and development of emerging operational approaches and practices linked to the Principles.

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1 Notwithstanding the need to integrate climate action within the operations of a financial institution, the importance of parallel efforts by policymakers to ensure the appropriate regulatory and enabling environments exist to scale up financing to address climate change cannot be overstated. Other initiatives and public statements have been made over the last several years by the financial community calling on policymakers to take such actions.
"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.

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 mobilising and catalysing 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
capacity have come with important budget implications. Nonetheless, the emerging practices illustrated in this paper highlight considerable endeavors undertaken by financial institutions to operationalize approaches to mainstream climate considerations.

As a way to both capture evolving experience, and facilitate learning and knowledge sharing, regular updates of these Emerging Practices are envisioned. A web platform will be developed to facilitate knowledge sharing, and this platform will link to illustrative case studies from Supporting Institutions.

We hope the financial community finds these Emerging Practices useful and inspiring for those considering or working to implement practical approaches to mainstream climate change within financial institutions.
INTRODUCTION

Countries around the world face the challenge of equipping their economies and societies with low carbon, resilient strategies, policies and programs to avoid locking into unsustainable development patterns.

The private sector, including financial institutions, face the challenge of incorporating climate change risks into decision-making processes to avoid harmful effects on business models and market competitiveness, and to harness the opportunities of low carbon, resilient development.

Together, public and private financial institutions face questions including:

- How can financial institutions devise and implement locally driven low carbon, resilient policies and business models that support climate change mitigation and adaptation while preparing for accompanying changes?
- How can financial institutions integrate different economic actors into new development models and provide incentives and opportunities for them to engage?
- How can financial institutions manage climate change risks and uncertainties, and generate and seize new climate-smart opportunities?
- What priority initiatives, particularly in the financial sector, are needed by institutions and companies to achieve development, investment and sustainability goals and meet fiduciary responsibilities?

Financial institutions can play a key role in addressing these challenges, internally and through relationships with their clients, and have started to respond.

The five voluntary Principles for Mainstreaming Climate Action Within Financial Institutions provide a statement of leadership and a framework for collaboration and exchange of lessons as financial institutions develop and mainstream approaches to address climate change.

“Mainstreaming” approaches means making climate change considerations a core component of how an institution conducts business. It implies a shift from incremental financing of climate activities to ensuring that climate change is a core consideration and “lens” through which institutions deploy capital, new opportunities, and managing risk. It can take months and sometimes several years to design and deploy new strategies, approaches, tools and methodologies and align internal systems to capture information, data and metrics that can help mainstream climate considerations. Sometimes approaches require regular updating to reflect enhanced understanding and accounting for climate change and its impacts and opportunities.

By supporting these Principles financial institutions are acknowledging the importance of systematically integrating climate change considerations across strategies, programs and operations to deliver better, more sustainable short-term and long-term results—developmentally and financially.
PURPOSE AND APPROACH

The five voluntary Principles for Mainstreaming Climate Action Within Financial Institutions are a “chapeau” that encompasses ongoing work as well as new areas where some institutions are only now beginning to engage. The experience in some areas may be more extensive than others; nonetheless emerging practices can be seen across all five Principles.

These Emerging Practices provide a snapshot of how financial institutions are supporting the Principles today. Practices highlighted in this document are not intended to be prescriptive, but rather to showcase efforts that have been developed, tested and refined over several years or are in the process being developed.
Many existing initiatives give a voice and platform for a range of financial institutions to show leadership on climate change. Many involve a call for action by policy makers to set the right policies and market signals so finance can flow towards climate-smart and resilient investment. While many existing leadership commitments support aspects of the Principles none have a sole focus on how institutions operationalize requirements to mainstream climate considerations throughout their operations. These Principles are designed to fill this gap and complement existing initiatives and leadership statements from the financial community. A sample of other complementary initiatives are described in Box 3.

**BOX 3  Complementary Climate Initiatives**

**The Carbon Disclosure Project (CDP)** holds the largest global collection of self-reported climate change, water and forest-risk data. Partners including businesses, governments and investors agree to share information with CDP and use aggregated information to make investment and purchasing decisions. In 2014, 767 institutional investors representing over $92 trillion of assets disclosed climate data to CDP.

**Institutional Investor Group on Climate Change/Climate Change Investors Solutions Guide** provides non-binding guidelines on how to better address climate change from an investor’s perspective. A range of strategies and solutions are presented including on carbon pricing, low carbon investment, managing and reducing carbon exposure in portfolios and engagement.

**Global Investor Coalition on Climate Change/Institutional Investor’s Statement on Climate Change** sets out the contribution that investors can make to increase low-carbon and climate-resilient investments. The 2014 statement was signed by 370 investors representing more than $24 trillion in assets.

**United Nations—Principles for Responsible Investment (PRI).** Launched in 2006 at the New York Stock Exchange, the PRI were convened by the U.N. Secretary-General and developed by an international group of institutional investors to reflect the increasing relevance of environmental, social and corporate governance issues in investment practices. In signing the Principles, the 1,380 investors publicly committed to adopting and implementing them where they are consistent with their fiduciary responsibilities.

**The Equator Principles** is a binding risk-management framework adopted by financial institutions. It seeks to determine, assess and manage environmental and social risk in projects, and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. As of 2014, the Equator Principles totaled 80 signatories.

**The Portfolio De-Carbonization Initiative (PDC)** is a multi-stakeholder initiative that aims to decrease GHG emissions by mobilizing institutional investors committed to gradually decarbonising their portfolios. Co-founded by Amundi, AP4m CDP and UNEP, the PDC requires asset owners and managers to support, or firmly plan to support, clients seeking portfolio de-carbonization or similar climate-related capital re-allocation efforts and are fully and publically committed, at CEO level, to promoting the PDC and its recruitment activities among peers.
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.

OVERVIEW
Many financial institutions are taking action and demonstrating leadership on climate change, and many have made public commitments. For example, many development finance institutions as well as private financial institutions have made commitments to allocate capital and steer financial flows toward more low carbon, resilient activities (Box 4). Many also collect data and employ tools that help embed climate change considerations into their institutions.

Principle 1—COMMIT to Climate Action—recognizes that bottom-up, organic approaches to addressing climate change may not alone be sufficient to integrate climate change across strategies, policies and operations. It recognizes that senior-level commitments to address climate change can have a positive influence throughout all layers of management and operations. It emphasizes the importance of building climate change considerations into the strategic direction and vision of a financial institution, as well as through institution-wide actions.
Senior Management Leadership

**Principle 1: COMMIT to Climate Action**—is about leadership from senior management at the highest level, including at the level of the board of directors and/or governors. A climate strategy promoted by an institution’s leaders, in the form of climate-relevant strategic priorities, policy commitments, plans and/or targets, encourages a coherent approach and serves as a foundation and catalyst for an array of operational responses. Communicating a strategy from senior management and disseminating it through the management structure across an institution allows for an integrated, organizational approach.

Explicit Strategic Priorities, Policy Commitments and Targets

Robust climate strategies can be promoted through a combination of strategic priorities, policy commitments, plans and/or targets. Strategic priorities can vary from explicit climate change commitments to prioritizing lending and advisory activities in climate-relevant sectors (e.g., renewable energy, energy efficiency, sustainable agriculture). Internal policy commitments can lead to the creation of strategic priorities for an institution. For instance, an internal policy commitment to reduce portfolio-level greenhouse gas emissions can result in a new strategic priority to pursue lending and advisory activities in climate-relevant sectors. Targets can ensure that action permeates all levels of an institution but generally work better when linked to a strategic priority or policy commitment.

Illustrative Elements

**Examples** of actions being taken towards implementation of this Principle include:

- Climate change is adopted as a corporate/institutional priority by an institution’s directors and/or governors, for example through a strategic plan that integrates climate change or a systematic mainstreaming of climate into business/strategic plans.
- Senior management is accountable—e.g., vice president/managing director—for promoting climate change objectives. Positions are built into the institutional structure that promote and are accountable for meeting climate change objectives.
- Incentive structures are in place, such as quantitative and/or qualitative targets for climate

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**BOX 4  Financial Commitments from Private Financial Institutions (2014-15)**

During the United Nations Climate Summit in September 2014, the private sector announced plans to mobilize more than $200 billion in financial assets for low carbon and climate-resilient development. This includes the insurance industry’s commitment to double its green investments to $84 billion by the end of 2015 and to reach a tenfold increase by 2020. Three major pension funds pledged to allocate more than $31 billion to ‘low-carbon’ investments by 2020, while a coalition of institutional investors pledged to decarbonize $100 billion. During the Summit, commercial banks pledged $30 billion in new climate finance by the end of 2015 through issuing green bonds and other innovative financing initiatives.

In the year following the Climate Summit, the finance sector has made important announcements relating to climate finance. This includes Citibank’s goal to lend, invest and facilitate $100 billion over 10 years to environmental and climate change solutions, Barclays’ intent to invest £1 billion in green bond market, AXA’s pledge to triple its green investment footprint to reach €3 billion by 2020, and many other major pledges by the financial sector.
change actions, and included on scorecards, in performance management systems or other systems that track the delivery of results at all levels.

- New business lines, products or special financing vehicles or terms are designed to increase financing for climate-smart investments.

### Some Lessons from Emerging Practice in Action

Annex A includes several case studies on emerging practices, which illustrate some ways financial institutions are operationalizing this Principle. Some lessons emerging from this experience includes:

> “A specific Action Plan on climate change provided the impetus necessary for the [African Development] Bank to proactively engage with regional member countries on climate change. It also enabled the strategic restructuring, creation of new structures and hiring of staff to support the climate change agenda.”

**Africa Development Bank (AfDB)**

> “Mainstreaming climate change into operations is a process that requires establishing policies and implementing actions on climate change early on. Strong management support is key to successful mainstreaming.”

**Asia Development Bank (ADB)**

> “[Both] Embedding climate staff throughout the organization is crucial making climate business a part of “business as usual”; [and having] a centralized climate staff is key to provide the tools, strategy and support to build climate business.”

**International Finance Corporation (IFC)**

> “Strong managerial support over the long run and at all levels is required for a successful implementation of such a strategy. AFD’s Climate Change and Development Strategy is ambitious in that it implies that AFD’s investment practices across all sectors will increasingly take account of climate change, and it is expected that new practices will emerge.”

**Agence Française de Développement (AFD)**

> “To establish Responsible Banking as one of the key pillars of growth for YES BANK, it was definitely necessary to have strong leadership to percolate the strategy throughout the organization.”

**YES BANK**

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2. Note this is not intended to provide a comprehensive picture of emerging practices across Supporting Institutions. These examples have been provided on a voluntary basis by Supporting Institutions. Examples are the sole responsibility and product of those institutions.
OVERVIEW
The growing threats from climate change make understanding, quantifying and actively managing business exposure to the physical impacts of climate change and/or sudden or dramatic decreases in the value of carbon assets is an important part of modern-day risk management.

Principle 2: MANAGE climate risks—emphasizes the importance of understanding and addressing climate change risks to an institution’s existing portfolio and operations, as well as pipeline and future investments.

MANAGE Climate Risks
Be active in 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.
Assessing Portfolio, Pipeline and New Investments

Assessing a financial institution’s portfolio, pipeline or new investments for carbon risk is possible but depends on an assumption that policy or market changes will have an impact. These changes could potentially be coupled with market price signals, including a price on carbon, or other policies implemented by financial regulators (see Box 5). Several financial institutions, NGOs and civil society organizations that promote carbon pricing and regulatory restrictions on fossil fuels have looked at how balance sheets might be exposed to dramatic decreases in the value of carbon assets. Some institutions today screen new investments for GHG emissions to understand the social cost of carbon in the economic assessment of an investment.

Assessing a financial institution’s portfolio, pipeline or new investments for exposure to physical impacts from climate change is more complicated. Most financial institutions, following routine market practice, assess risk on a time horizon far shorter than that necessary to gauge the long term impacts of climate change. Many other actors in the financial system tasked with understanding risk also assess forward risk on relatively short time horizons. Traditional modeling techniques that rely on historical events and extrapolate forward using statistical analysis are an imperfect basis for understanding climate risk, due to uncertainties in associated with changes in climate and extreme weather events, and of course the timing of those events.

Nonetheless, some financial institutions are beginning to try to understand their own exposure to climate risk in more quantifiable ways. The following examples show emerging practices by some development banks to better understand climate risk for their investments, including the use of climate risk screening tools to identify potential physical impacts to an investment from natural hazards, some of which are linked to climate change, such as drought, water shortages, flooding and increased frequency of extreme weather events. Others are developing “decision making under uncertainty” approaches for use when data is not available or quantification of risk is challenging.

BOX 5 Financial Policy and Climate Risk

Mainstreaming climate risk considerations within financial policy has emerged as a relatively new area of research in the past two years. Three separate “initiatives” which explore ways to enhance financial policy and regulation are worth noting:

UN Inquiry for Sustainable Financial System: In January 2014, UNEP established the “UN Inquiry: Design of a Sustainable Financial System” (Inquiry), mandated to explore options for aligning the financial system with sustainable development. The final report of the Inquiry was published in October 2015, and suggests that there is a “quiet revolution” among many financial policy makers (particularly from emerging economies) to integrate sustainable development into the fabric of the financial system.

Bank of England, Prudential Regulatory Authority (PRA): Bank of England’s PRA launched a review of climate risk in the insurance sector, based on a connection between its core prudential duties and the UK Climate Change Act. It sought to understand the implications of climate change on the soundness of the UK insurance sector, underscoring the links between the activities of regulated financial institutions and financial policy and regulation. The Bank of England’s Governor, Marc Carney, has also facilitated a discussion on the impacts of climate change to the stability of the financial system through the Financial Stability Board.

The ”1 in 100 Initiative”: The 1-in-100 Initiative, launched during the 2014 Climate Summit by an alliance of global accounting bodies and the insurance industry, aims to integrate natural disaster and climate risk into the financial regulation globally. At the core of the initiative is a “1-in-100 year stress test,” which evaluates the maximum probable annual financial loss that a company, a city, a region, or even an individual property could expect once in a hundred years. The initiative seeks to facilitate better accounting and disclosure of “catastrophe risk”, many of which are linked to changes in climate.
Work with Clients, Stakeholders to Assess and Manage Climate Risk

Linked with approaches to screening new investments, many financial institutions proactively work with clients and other stakeholders to ensure resilience measures are incorporated into project and investment design.

For example, the Equator Principles (Box 6) require financial institutions providing project finance, advisory and project-related corporate loans to apply environmental standards that address and improve a project’s resilience to climate impact. Such requirements help improve the resilience of the investment to physical impacts resulting from climate change, and as a result help manage that investment’s climate risk. More than 30 countries and 81 financial institutions have adopted the Equator Principles, accounting for the majority of international project finance debt in developing member countries.

Illustrative Elements

Examples of actions being taken towards implementation of this Principle include:

- Assessing climate risk to new investments, pipeline and/or an existing portfolio. This could include for example impacts on physical assets, investments where the impairment of physical assets would have a significant financial impact, and potential impacts from climate-related extreme weather events on financial or economic health, or development objectives.

- Developing approaches to assess and manage climate risks, together with clients and other stakeholders, to better manage direct impacts on an institution’s investments, balance sheet and assets.

Some Lessons from Emerging Practice in Action

Annex A includes several case studies on emerging practices, which illustrate some ways financial institutions are working to assess and manage risks posed by climate change. Approaches to systematically assess and manage such risks are not widespread at this time, although this is expected to increase in coming years. Updates to these Emerging Practices are likely to include new, possibly innovative approaches to assessing and managing climate risk in a financial institution’s existing investments and portfolio. Some lessons emerging from this experience includes:

- Not this is not intended to provide a comprehensive picture of emerging practices across Supporting Institutions. These examples have been provided on a voluntary basis by some Supporting Institutions. Examples are the sole responsibility and product of those institutions.

BOX 6  The Equator Principles

The Equator Principles (EPs) consist of ten Principles that apply to four financial products across all industry sectors, globally: Project Finance Advisory Services, Project Finance, Project-Related Corporate Loans, and Bridge Loans. The EPs are intended to serve as a common baseline and framework for social and environmental policies, procedures and standards.

The original EPs were launched in 2003 with 10 signatories. As of 2015, 81 Equator Principles Financial Institutions (EPFIs) in 36 countries have officially adopted the EPs, covering over 70 percent of international Project Finance debt in emerging markets. The EPs have helped spur the development of other responsible environmental and social management practices in the financial sector and banking industry (for example, Carbon Principles in the US, Climate Principles worldwide) and have provided a platform for engagement with a broad range of interested stakeholders, including NGOs, clients and industry bodies.
“... Quick access to climate information at the national and subnational level is helpful for initial assessments. ... the option to use the Climate Risk Screening Tool ... provides a better basis for managing [project] risks from climate change.”

World Bank—IBRD

“Risks need to be identified at the early phase of project preparation. Adaptation is not cost neutral but may not necessarily be expensive and a large menu of adaptation options are available [including both] engineering and non-engineering.”

Asian Development Bank (ADB)

“The institution-wide applicability of the Project Identification and Screening methodology secures not only a clear commitment to climate change strategies both globally and within the organization, but also allows NDF to push forward the climate agenda towards mainstreaming in its partner organization and partner countries through early involvement and through innovative solutions beyond the obvious.”

Nordic Development Fund (NDF)

“Climate risks are also [to be] identified prior to project implementation, to advise appropriate mitigation measures, despite uncertainty attached to them Educating [the] clients on the significance of non-financial risk mitigation is equally important, as this needs to be a collaborative action.”

YES BANK
Principle 3: Promote Climate Smart Objectives

Promote approaches to generating instruments, tools and knowledge on how best to overcome risks and barriers to 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.

Overview

Principle 3: Promote Climate Smart Objectives—encompasses actions by financial institutions to promote climate-smart objectives with clients and external stakeholders to create opportunities for increasing climate smart investment. Indeed, many financial institutions see the business opportunity to finance climate-smart investments and have dramatically increased financing in recent years, most notably in renewables. This Principle does not necessarily imply the development of new or distinct business lines to capture opportunities linked with climate change, although some have chosen to establish dedicated funds and facilities for that purpose.
Principle 3 highlights the need to incorporate climate change considerations in routine business development efforts to seek out new investment opportunities. For many development finance institutions, client engagement and development of projects are often driven by country demands, and for many private finance institutions proactively promoting climate smart objectives is an opportunity to increase demand for financing.

**Promoting Climate Action with Clients, Stakeholders**

Engaging clients and stakeholders can take many forms, such as dedicated attempts to develop industry, sector or country strategies, or work with rating agencies, insurance companies, specialized engineers and accountants, or other entities that provide professional services to financial institutions which enable them to make well-informed investment decisions.

For many development financial institutions and banks that provide project financing support, this can be part of business development efforts to promote the use of specialized climate funds, the issuance of green bonds, or even through the knowledge gained through climate-risk screening of projects.

**Financial Products and Services to Address Climate Change**

Many financial institutions have already begun to develop and market products and services that help clients address climate change. Green bonds, concessional finance, specialized funds or other financial vehicles signal to both markets and clients about the availability of products that can help mobilize financing for or catalyze climate-smart investments, including technical assistance and capacity building. Many financial institutions also play a critical role in mobilizing additional sources of capital to climate-smart projects, including through syndication operations and risk sharing structures that crowd in investors to dedicated climate funds and facilities.

**Promote Knowledge Sharing and Dissemination**

Financial institutions are in a unique position to share experience and knowledge gained from practical approaches to climate-smart investments. Sharing practices and approaches that are successful can inform clients, stakeholders and other financial institutions about lessons learned from implementation. Financial institutions already participate in many industry-wide fora where good practices and lessons from experience are shared. Continuing and enhancing such knowledge-sharing will be vital as new approaches to deal with climate risks and catalyze opportunities emerge.

**Illustrative Elements**

*Examples* of actions being taken towards implementation of this Principle include:

- Promotion and underwriting of green bonds, new financial structures or other instruments that explicitly incorporate concepts supporting climate-smart investments.
- Mobilize and catalyze additional investment wherever possible, including through the use of syndications and other coordination efforts with investors, risk sharing facilities which crowd in new investors into funds and dedicated climate facilities.
- Impact funds, blended finance or other dedicated mechanisms that provide financing for projects that might not otherwise happen on purely commercial terms, but have the ability to both demonstrate to the market the absence of risk and can catalyze additional investments.
- Industry specific strategies to increase lending that support climate-smart investments, including clean energy (renewables, solar or other clean energy generation), energy efficiency or climate-resilient infrastructure.
Advisory services to help clients gain a greater understanding of climate-smart opportunities involving mitigation and resilience/adaptation strategies and programs.

Participation in knowledge-sharing platforms, organizations that facilitate the development of standards, or other approaches that promote cross-dissemination of climate change learning.

**Some Lessons from Emerging Practice in Action**

Annex A includes several case studies on emerging practices, which illustrate some ways financial institutions are working to engage their clients and stakeholders. Some lessons emerging from this experience include:

“Creative and smart partnership arrangements between departments, private sector and the NGO sector is needed for successful mainstreaming and implementation at scale. Investment packages for small scale as well as large scale projects are key to overall success of programs.”

Development Bank of South Africa (DBSA)

“[Special lending programs, such as] Climate Change Program Loans (CCPL) [are] effective in avoiding duplications among donor’s assistance, and brings concerted supports by donors.”

JICA

“Product innovation [through EIB’s Climate Awareness Bonds] has enhanced market interest and enabled investors to engage more effectively in the area of climate. [and] Large volumes of Green Bond issuances have kick-started a spiral process gradually improving issuers’ accountability.”

European Investment Bank (EIB)

“Green Bonds have been able to address a number of challenges in the existing financing mechanisms including sector limits, high interest rates and Asset-Liability mismatch to finance projects in the renewable energy and energy efficiency space.”

YES BANK

“Societe Generale’s First Positive Impact Bond demonstrates its ability to draw on its financial structuring and distribution expertise in order to help build a sustainable bond market, thus deepening capital markets funding sources for sustainable growth projects alongside bank lending backed by a robust Positive Impact Assessment Framework.”

Societe Generale (SocGen)

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4 Note this is not intended to provide a comprehensive picture of emerging practices across Supporting Institutions. These examples have been provided on a voluntary basis by some Supporting Institutions. Examples are the sole responsibility and product of those institutions.
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, asset allocations, and the institution’s own climate footprint.

OVERVIEW

Principle 4: IMPROVE climate performance—emphasizes the need for a financial institution to have the appropriate operational tools, as well as systems to track, monitor and incorporate climate considerations into day-to-day operations. Without such tools, an institution may be unable to understand, assess and quantify its climate performance. Operational tools and results frameworks to assess performance are an important first step to understanding, and ultimately improving overall institutional performance related to climate change.
Establishing the Tools and Indicators to Address Climate Change Priorities

Financial institutions generally seek information that helps to understand the climate impact, risks and opportunities associated with their engagement and operations. This may include among others: how much finance is flowing for climate action and what additional financing/climate financing they are able to mobilize; their capital allocation between climate-smart and other lending and investment activities; and the impact of investments on the climate (for example by looking at the carbon footprint, social cost of carbon) or as a result of climate change (for example by identifying potential risks from climate impacts or climate related policies).

Financial institutions have been developing, and/or engaging with others on the development or adaptation of, operational tools and systems that allow such information to be captured, quantified and measured. Financial institutions can draw from a growing set of publically available resources to guide their tracking and monitoring efforts—see Box 7.

Developing credible definitions and tools to measure, account and report such information, or provide qualifications in the absence of feasible quantification, requires resources and expertise. Often engagement with other financial institutions and external stakeholders is needed to ensure approaches as aligned with market practice.

When a tool or system is developed or adopted, internal capacity and staff may be needed to mainstream it into internal systems to capture relevant information. This may require significant effort to raise awareness, provide support structures and training so that they can be used effectively—all of this may have budgetary implications for operations.

Financial institutions can also set targets or benchmarks to measure or qualify performance and progress over time, such as how well strategic priorities are implemented. Indicators are often tracked through scorecards or results frameworks. Systematically capturing information allows for better, more consistent decision-making, improved risk management, and more informed risk-taking. It facilitates the identification of new climate-smart investment opportunities.

While not all operational tools will result in disclosure of information, many operational tools that allow for tracking can also facilitate more transparent reporting (see Principle 5).

Illustrative Elements

Examples of actions being taken towards implementation of this Principle include methodologies, tools and systems that:

- Assess the GHG impact of investments and/or the carbon footprint of operations and physical assets (e.g. corporate travel, recycling and building energy use and efficiency).
- Assess and account for climate finance flows, including: actual balance sheet allocations; other allocations from specific climate finance sources;
and additional funds “leveraged” from balance sheet investments, and additional funds mobilized from external sources for climate smart investments.

Screen for climate risk and opportunity. Build carbon pricing/social cost of carbon into economic analysis of investments.

Some Lessons from Emerging Practice in Action

Annex A includes several case studies on emerging practices, which illustrate some ways financial institutions are developing methodologies, tracking tools, systems and approaches that enhance the ability to assess and manage climate performance. Some lessons emerging from this experience include:

“Having an IT system that supports the Measuring Reporting and Verification (MRV) activities and integrates it into the rest of the banking system is essential.”

European Bank for Reconstruction and Development (EBRD)

“Systems to track lending targets are useful for establishing internal incentives; The climate change lending target has contributed to the strengthening of vulnerability assessments [and tools] as well.”

Inter-American Development Bank (IADB)

“Achieving a comprehensive measuring of emissions has helped create a consensus [around] priorities [for the institution], and the development of [climate related] policies.”

Credit Agricole CIB

“A practical reference [tool] is helpful to promote mainstreaming climate change considerations within an institution.”

JICA

“The implementation of the Carbon Footprint Tool has been a key element to mainstream climate change considerations not only within AFD but also when engaging with clients and stakeholders, as it helps identify opportunities and risks, and evaluate alternative options when relevant.”

Agence Française de Développement (AFD)

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5 Principle 2: Managing Climate Risk deals specifically with an institution’s ability to understand, assess, monitor and quantify impacts from climate risks. Emerging practice by institutions seeking to address climate risk include climate risk screening tools. These would also be considered an operational “tool” under Principle 4.

6 Note this is not intended to provide a comprehensive picture of emerging practices across Supporting Institutions. These examples have been provided on a voluntary basis by some Supporting Institutions. Examples are the sole responsibility and product of those institutions.
“The internal carbon tax is a strong incentive tool that promotes integration of environmental impacts in the business model and innovation.”

Societe Generale (SocGen)

“The Common Principles for mitigation finance tracking help improve data transparency, collection processes, and begin to address comparability of reporting across different institutions. Common Principles for Adaptation tracking have established key principles and also important next steps to start to address more harmonized approaches.”

International Development Finance Club (IDFC) and Multilateral Development Banks (MDBs)
OVERVIEW

Principle 5: ACCOUNT for your climate action—is about transparency and disclosure of climate information. Transparency and disclosure of climate information provides decision-makers, investors, shareholders and the market in general with critical information that can help drive greater climate action by a wider number of institutions, companies and consumers. Transparency and disclosure can help drive capital flows toward climate-smart activities, and can contribute to efforts to manage climate risks in the financial system as a whole.
Climate and Carbon Disclosure: GHG and Portfolio Footprint, Climate, Water and Forest Risks

Many financial institutions and investors already voluntarily disclose climate-related metrics and information involving carbon emissions and footprint, as well as climate-related impacts. In many cases, disclosure of climate-related metrics requires the tools and approaches discussed in Principle 4, although not all information generated through tools necessarily requires disclosure. An increasing number of jurisdictions have guidelines for regulated financial institutions to report and disclose information on carbon investments and risks, while many public sector financial institutions are required to report similar information to governments and citizens.

In many ways, the ability to disclose metrics and assessments related to climate risk—in terms of carbon assets or impacts from climate change—depends on the availability of credible tools and approaches to measuring or assessing them. In areas such as GHG accounting, a significant amount of work has been done, and similar approaches are being applied, by a wide variety of institutions. In other areas, such as quantifying exposure to physical climate impacts, tools are only now being developed and tested which can allow for credible disclosure of such information. Even on a voluntary basis, such disclosure can have significant impacts on the ability of the financial markets to transform and adapt to a changing climate.

Climate Finance Reporting

The International Energy Agency estimates that more than $1 trillion in new, low-carbon investments will be needed each year between 2011 and 2050 in the energy sector alone if warming is to be limited to 2 degrees Celsius—the threshold for catastrophic impacts. Trends in overall financing flows are important for markets, as these reports can highlight issues or trends occurring year-over-year within certain sectors or industries. Climate finance reporting is also important for policy makers, who use such data to understand how climate finance is being used and leveraged, and whether certain structures and risk mitigation measures are more effective than others.

For several years, many development finance institutions (DFIs) have been publicly reporting their climate finance for mitigation and (more recently) adaptation investments. In addition to the self-reporting by DFIs, Climate Policy Initiative (CPI), Bloomberg New Energy Finance and the Organization of Economic Cooperation and Development (OECD) also gather information from a variety of financial actors to develop comprehensive climate finance reporting. These reporting efforts provide critical information for policy makers, other financiers and investors.

Illustrative Elements

There are a number of ways a financial institution can disclose climate actions, including through annual reports, participation in investor coalitions or other organizations that provide reporting mechanisms, or through mandated reporting requirements. Examples of approaches taken by institutions include:

- Disclosing an institution’s emissions footprint, for operations and investments, such as emissions
from corporate travel, corporate recycling and building energy use and efficiency, assessments of investment portfolio emissions.

- Disclosing the carbon intensity of investments and/or carbon assets at potential risk due to policy reform or market evolutions.
- Information on how a financial institution is addressing climate-related physical risks.
- Disclosing investment support for climate-smart actions, and potentially reporting on additional funds leveraged or mobilized.

Some Lessons from Emerging Practice in Action

Annex A includes several case studies on emerging practices,7 which illustrate some examples of disclosure and transparency practices of financial institutions. Some lessons emerging from this experience include:

“We believe our increased transparency has helped us build trust, credibility and visibility among communities and investors, and profitability for the Bank. The Bank’s success in integrating its sustainability objectives into its core business operations clearly demonstrates that achieving profitability and meeting one’s developmental priorities can be mutually inclusive.”

YES BANK, India

“At EIB, management of funds for our Climate Awareness Bonds (CAB) and the project impact reporting framework we have developed draws heavily from our climate finance tracking definitions and from our GHG analysis and reporting—increasing transparency and clarity for CAB investors and other external stakeholders, who thus have the opportunity to engage more effectively in the area of climate finance.”

European Investment Bank (EIB)

“Transparent reporting is essential to understand the scale and scope of climate finance and the actors involved. IDFC mapping reports highlight the important role of national and regional development banks in the mobilization and channeling of climate finance.”

International Development Finance Club (IDFC)—Joint Reporting on Climate Finance

“Harmonization can help ensure publically reported data is consistent in most areas, which is useful for policy makers.”

MDB Group—Joint Reporting on Climate Finance

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MAINSTREAMING
Climate Action within
Financial Institutions
Emerging Practices