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**REPORT** DECEMBER 2023

# ENHANCING MDB–NDB COOPERATION UNDERSTANDING CLIMATE FINANCE FLOWS AND PARIS ALIGNMENT

**VIKTOR AHLGREN & LAURA SABOGAL, E3G**

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CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, the United Kingdom, and the United States.

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## EXECUTIVE SUMMARY

On-lending by multilateral development banks (MDBs) to national development banks (NDBs) has significant potential to accelerate global climate investment where it is needed most, by leveraging the institutional advantages that MDBs and NDBs each possess.

Ongoing calls to reform the international financial architecture (IFA) have stressed the need for public financial institutions to work as a system, moving from project-based approaches to more coordinated country platforms in which local financial institutions actively participate. However, the current state of engagement between MDBs and NDBs in emerging and developing economies (EMDEs) is not comprehensively documented, particularly regarding climate-related finance flows. A better understanding is needed, including establishing a baseline from which climate-related finance flows will grow.

At the same time, inherent differences between MDBs and NDBs – such as in terms of institutional structure, size, client base, mandate, and political context – can affect pathways for aligning financing with Paris Agreement goals. These differences can also have implications for the approach of these institutions to broader climate mainstreaming, and hence, mobilisation capabilities.

In this context, detailed analysis of climate finance interactions among MDBs and NDBs can advance progress on wider IFA reform by revealing opportunities to increase the volume, effectiveness, and equity of global climate finance. Furthermore, understanding what factors impact NDBs' and MDBs' progress towards Paris alignment can enable more effective diffusion of best practices and mitigate barriers to progress.

These two areas of study are highly related. In practical terms, differing approaches to Paris alignment may impact the quantity and quality of climate on-lending from MDBs to NDBs, particularly as MDBs begin to push for Paris alignment among their counterparties. Furthermore, research has documented several system-level barriers to greater MDB–NDB engagement, ranging across governance, political, operational, and institutional aspects, which are exacerbated by misalignments on climate mainstreaming.





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**Our research finds limited MDB–NDB climate cooperation within the financial flows of these two groups that can be tracked to date. MDBs and NDBs also diverge on their paths and progress towards Paris alignment.<sup>1</sup> Understanding these two interrelated trends will enable public development banks (PDBs) to work more effectively together as a system to achieve climate goals.**

Consequently, understanding how and why the Paris alignment process varies between MDBs and NDBs can help to optimise these banks' relationships to increase the volume and effectiveness of on-lending, particularly for climate projects. To enhance MDB–NDB collaboration and the effectiveness of the public bank ecosystem, it is key to understand where the banks have common goals and how to address factors that impact both the volume of on-lending and level of Paris alignment.

## Status of MDB–NDB climate finance flows in EMDEs

Producing reliable estimates of the volumes of MDB finance to NDBs is difficult due to inconsistent reporting by both sets of actors. CPI therefore undertook a web scraping exercise of project portals from MDBs' joint reporting on climate finance to obtain a sample of climate-related MDB-to-NDB financial flows across EMDEs.<sup>2</sup> While this dataset, spanning the period 2015–2022, is likely underrepresent total MDB-to-NDB finance, it reveals 42 total transactions involving MDB–NDB joint participation. In 39 instances, the NDB is the recipient of MDB financing. The remaining three transactions are co-financing arrangements.<sup>3</sup>

Analysis of the data shows significant variability in terms of the institutions, regions, and sectors involved (Figure 1). Notably, most climate-related MDB–NDB finance by volume does not have a specific sectoral focus, but project descriptions suggest that these transactions typically aim to support general green investment, recovery from natural disasters or economic distress, or infrastructure development. Where a specific sectoral focus can be determined, energy systems is the largest recipient. Finally, these arrangements are implemented through a wide array of secondary transaction structures (e.g., direct project sub-loans, public–private partnerships, corporate credit) and are often supported by third parties, typically via sovereign guarantee.

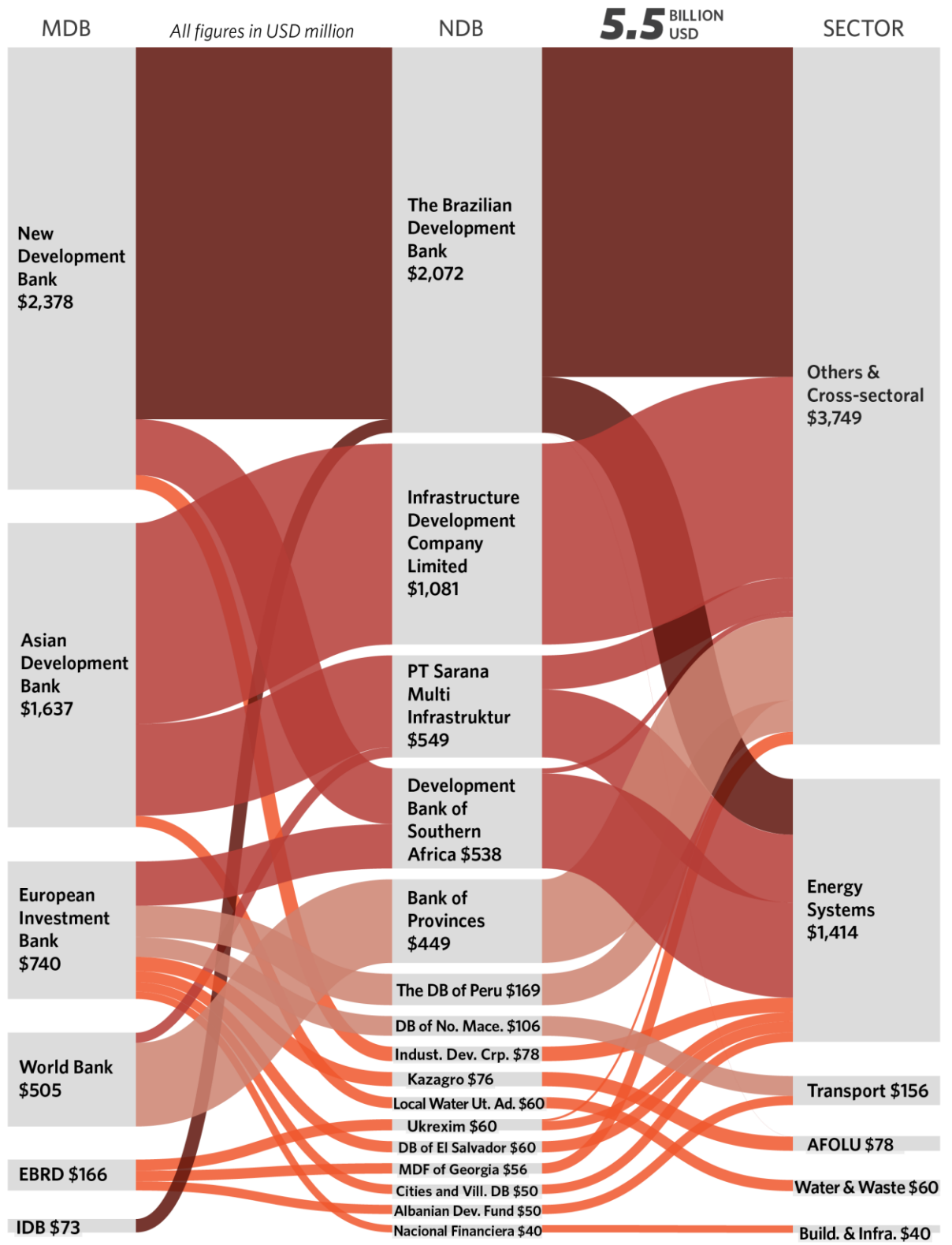
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<sup>1</sup> E3G, [Public Bank Climate Tracker Matrix](#) (webpage), accessed November 2023

<sup>2</sup> See Annex 1 for data collection methods and limitations.

<sup>3</sup> The full list of bank names and acronyms is available in Annex 1.





1. NDBs Foreign Trade Bank, Nat'l Bank for Agr. and Rural Dev. and Unknown sum to <5mn and <0.1% of total finance  
 2. DB stands for Development Bank

Figure 1: MDB-to-NDB climate-related finance flows by sector



Further research, based on interviews and a literature review, has identified a series of operational challenges to greater on-lending, particularly where misalignment between MDBs and NDBs creates transactional friction. These challenges include currency risks and domestic currency lending, general risk appetite, institutional capacity, and expertise – illustrated through the support and development of project pipelines, the role of NDBs as financial intermediators, and the procedures and approval policies that come with MDB loans – as well as macroeconomic political economy and governance risks.

## Progress on Paris alignment across MDBs and NDBs

Parallel to increased collaboration on joint climate finance, both MDBs and NDBs have been mainstreaming climate considerations into their overall operating structures and processes. Such climate mainstreaming can also help to unlock greater MDB–NDB collaboration on climate finance.

Aligning operations with Paris Agreement goals (a proxy for climate mainstreaming) has received significant attention across public development banks, but with uneven progress. Given their differences in mandates, technical capacity, and financial operating structures, different types of institutions should not be subject to the same specific expectations. Nevertheless, in order to ensure system-wide alignment, it is valuable to understand in what respects progress against general expectations varies, and why this might be.

In order to build this understanding, this report assesses the state of progress on Paris alignment for a sample of six MDBs and six NDBs<sup>4</sup> across several key dimensions based on an abbreviated version of E3G Public Bank Climate Tracker Matrix,<sup>5</sup> namely: (1) direct finance; (2) indirect finance; (3) institutional strategy and governance; (4) adaptation and resilience; and (5) energy policy. The resultant findings are summarised in Table 1.

Based on this snapshot, factors that simultaneously impact both climate on-lending and climate mainstreaming (with Paris Agreement alignment as a proxy) across MDBs and NDBs can be identified.

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<sup>4</sup> MDBs: AfDB, ADB, AIIB, BOAD, CAF, IDB; NDBs: Bancóldex, BNDES, CDB, CDG, DBSA, PT SMI

<sup>5</sup> E3G, **Public Bank Climate Tracker Matrix** (webpage), accessed November 2023



Table 1: Summary of findings across the key dimensions across MDBs and NDBs

Area	Sampled MDBs	Sampled NDBs
Direct finance	All have prevalent targets and thresholds for financing dedicated towards climate, as well as common accounting definitions for this purpose.	Show considerable variance in accounting for and setting targets for climate finance, though many seek alignment with their countries' nationally determined contributions (NDCs).
Indirect finance	Typically extend the environmental safeguards and exclusion requirements of their direct lending policies to cover lending through financial intermediaries, including provisions for those intermediaries as part of their environmental and social safeguard policies.	Show greater variability in terms of available information and the detail of policies applied to financial intermediary financing, though most extend their own frameworks and guidelines to financial intermediaries.
Institutional strategy and governance	Five of six MDBs have published dedicated climate change strategies. Climate change is consistently integrated into overarching strategies, though Paris Agreement alignment is not.	Have incorporated climate into core strategic documents, largely in the context of reaching NDCs, though some have also developed additional climate-specific strategies.
Adaptation and resilience	Five of six MDBs have set clear goals to increase adaptation finance, although their commitments vary extensively in their specificity.	Adaptation finance goals are addressed in the context of long-term country goals and/or NDCs.
Energy policy	Four of six have a dedicated energy sector policy, though these vary in climate alignment and specificity. In these cases, they are accompanied by coal exclusion policies, and varying levels of oil and gas exclusion.	No NDB had a clear energy-specific policy, though many are involved in just transition efforts which have a strong energy dimension. While only one had a clear fossil fuel exclusion policy, many evaluate whether prospective fossil fuel financing is aligned with NDCs.



## Recommendations

This research identified three key factors that impact the volume of climate-related on-lending from MDBs to NDBs, and Paris alignment. These are:

- > political economy and governance
- > public finance mandates
- > institutional capacity and expertise.

The recommendations in Table 2 are designed to help overcome these factors and strengthen MDB–NDB engagement on climate finance.

*Table 2: Recommendations and targeted actions flowing from this report*

Recommendation	Targeted actions
<p><b>Political economy and governance:</b> As an initial step, MDBs should optimise operating models for delivering climate finance through NDBs via on-lending to improve the scale, durability, and effectiveness of MDB–NDB collaboration.</p>	<p>Both MDBs and NDBs should:</p> <ul style="list-style-type: none"> <li>&gt; Engage third parties (e.g., governments and multilateral climate funds) to bring concessional support into joint MDB–NDB financing arrangements.</li> <li>&gt; Require a counterparty approach assessment for any further lending by NDBs to private sector partners in high-emitting or hard-to-abate sectors.</li> </ul> <p>MDBs should:</p> <ul style="list-style-type: none"> <li>&gt; Support NDBs’ development of sectoral pipelines with clear climate criteria.</li> <li>&gt; Promote the development of local currency instruments.</li> <li>&gt; Promote greater standardisation of their approval processes.</li> </ul>
<p><b>Mandates:</b> At an institutional level, mandates for climate action should be clarified for both MDBs and NDBs and leveraged as a framework for collaboration and development of institutional capacity.</p>	<p>Both MDBs and NDBs should reconsider how their institutional mandates enable an effective, and fitting, contribution to the response to the global existential challenge of climate change.</p> <p>Further research is required to determine effective strategies for promoting engagement between NDBs, national governments, and national agencies to incorporate climate objectives into existing mandates.</p>



Table 2 (continued): Recommendations and targeted actions flowing from this report

Recommendation	Targeted actions
<p><b>Institutional capacity and expertise</b> should be shared between MDBs and NDBs to enhance collaboration on advancing institutional climate mainstreaming, scaling intermediated financing structures, and filling data gaps. This would help remedy the current lack of shared and detailed understanding between MDBs and NDBs on how mandates, local context, and risk appetite impact climate-related finance. Increased capacity and expertise is also critical to effectively implement the interim operating model recommendations listed above.</p>	<p>Both actors should leverage existing platforms, such as Finance in Common, for exchanging best practices in constructing joint MDB–NDB climate finance programs.</p> <p>As part of this, MDBs should increasingly coordinate and pool their efforts to build capacity at a regional level.</p> <p>MDBs should actively collaborate to disseminate their knowledge and lessons learnt from their internal capacity-building experience.</p> <p>Efforts should include a public, searchable database of joint financial engagements disaggregated at the project level, tracking when NDBs participate as on-lending intermediaries or as co-financiers.</p> <p>At an individual level, all MDBs should introduce a phased technical assistance approach.</p> <p>To add additional resources to this effort, MDBs should coordinate to make public a clear database of available technical assistance programs and support.</p>



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## INTRODUCTION

Amid the momentum to reform the international financial architecture (IFA), focus has been increasing on the need for public development banks (PDBs) to become fit for purpose to tackle global challenges such as climate change. A stronger PDB ecosystem is needed, rooted in more efficient and effective collaboration between the major multilateral development banks (MDBs) and national development banks (NDBs) in emerging markets and developing economies (EMDEs).

MDB-to-NDB financing has the potential to benefit both parties in a variety of ways. From the MDB perspective, NDB partners are useful local intermediaries, able to increase mobilisation of private financing and to deploy capital, usually in local currency, towards climate projects by leveraging domestic actors. This is illustrated by the fact that NDBs, collectively, are the largest providers of climate finance in total, as well as the largest provider of both mitigation finance and adaptation finance.<sup>6</sup> Like MDBs, NDBs are eligible to gain accreditation from the Global Environmental Facility (GEF) and the Green Climate Fund (GCF), which opens the possibility for blended finance structures with broader impact.<sup>7</sup>

Furthermore, NDBs have a deep understanding of the local political landscape and barriers to investment, as well as access to local stakeholders and decision-makers, including at the national and subnational levels. These capabilities are poised to become even more important amid the increasing relevance of coordinated country platforms and corresponding move away from approaches centered around individual projects and project types.<sup>8</sup>

For NDBs, MDBs are particularly well placed to leverage their experience and thought leadership across different countries and contexts to provide technical assistance (TA), patient capital and suitable de-risking instruments. Furthermore, policy-based lending allows MDBs to support regulatory changes to crowd in private investment, among other efforts to modernise the financial system. The strategic value of MDB–NDB partnerships also stems from the large balance

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<sup>6</sup> CPI, November 2023, **Global landscape of climate finance 2023**

<sup>7</sup> At times, the transaction cost to prepare a project for the GEF and GCF facilities are too high for NDBs, leading to another option for MDB–NDB collaboration in structuring projects that assist with or bypass the accreditation and/or transaction costs.

<sup>8</sup> ODI, June 2022, **Country platforms for climate action**; E3G, July 2023, **Next generation country platforms**



sheet and strong credit ratings of MDBs, which can be leveraged to originate on-lending or formulate credit enhancement mechanisms, such as guarantees. MDBs also have extensive international networks, creating opportunities to deliver additional financing for programs and projects through a consortium of MDBs and international private investors.

Non-financial benefits are also evident for both parties. MDBs bring a wealth of expertise in structuring financial agreements and facilities, as well as implementing reporting and governance frameworks and complying with and increasing the use of international climate standards. For their part, NDBs can provide contextual knowledge and networks, as well as existing beneficial relationships with various stakeholders within local economic systems that are both complex and information scarce.

This report focuses on two core areas, namely:

1. The scale and nature of the existing relationship between major MDBs and NDBs in EMDEs with regards to climate finance flows, including examples of successful engagement.
2. The current state of progress in key aspects of Paris alignment across MDBs and NDBs (with a focus on institutions with operations in EMDEs), in the context of recognising heterogeneous pathways across institutions.

By establishing an understanding of the state of both climate finance flows and climate mainstreaming across PDBs, shared factors impacting both can be identified. On this basis, recommendations have been formulated for enhancing the effectiveness and frequency of MDB–NDB engagement on climate finance, as well as ecosystem-wide progress on climate mainstreaming. This report is structured as follows:

- > **This Introduction** provides context by explaining the value of MDB–NDB climate on-lending and complementary paths to Paris alignment, as well as the methodology of this study.
- > **Chapter 1** provides an overview of the current state of climate flows between MDBs and NDBs and identifies operational challenges that are limiting them.
- > **Chapter 2** explores the progress of a select group of institutions on their Paris alignment pathways.





- > **Chapter 3** discusses structural factors affecting both climate mainstreaming and cooperation in climate finance between MDBs and NDBs.
- > **Chapter 4** presents recommendations to improve cooperation between MDBs and NDBs and facilitate progress on climate mainstreaming across institutions, resolve the identified asymmetry in information and priority resulting from differing mandates, and improve institutional capacity and expertise.
- > **Annex 1** provides notes on the data sources and lists the abbreviations used for the entities covered in the report.
- > **Annex 2** presents the full results of the analysis of Paris alignment progress for the selected group of institutions.

## Methodology

To facilitate this study, a mixed methods methodology has been deployed, relying on interviews, extant literature, and quantitative data analysis. Various interviews, along with a roundtable event, were conducted with MDBs, regional PDBs, and NDBs, with a focus on those operating in EMDEs. The discussions related to the relationships between banks on climate finance, the frequency of climate on-lending, TA and capacity building, and examples of successful or unsuccessful climate finance interactions.

Quantitative data has been generated through a web scraping exercise that identified existing financial linkages between MDBs and NDBs. To collect information on climate finance flows between MDBs and NDBs for the first part of this study, data was collected from MDB websites using API calls, open data downloads, and web scraping. The sample of entities targeted for data collection are MDBs contributing to the “Joint report on MDB climate finance”.<sup>9</sup> The data was collected for the period 2015–2022. Full details of the data collection and analysis are included in Annex 1.<sup>10</sup>

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<sup>9</sup> The MDBs included in the analysis are those contributing to the Joint Reports on MDBs’ climate finance: The African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), Inter-American Development Bank Invest (IDB Invest), Islamic Development Bank (IsDB), New Development Bank (NDB), and the World Bank Group, including World Bank, International Financial Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA).

<sup>10</sup> It should be noted that this data is characterised by a few key limitations. As project information (i.e., name, sector, financing amount, recipient entity, etc.) is collected from MDB project websites, the depth



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To examine the variation in progress on Paris alignment that is the focus of Chapter 2 of this report, methodology derived from the E3G Public Bank Climate Tracker Matrix has been used. An abbreviated version has been applied of this methodology, which was originally developed by E3G in 2023 to gauge alignment among PDBs that are at a more nascent stage in the Paris alignment process.<sup>11</sup> This abbreviated version seeks to amalgamate the rationale behind the full E3G Public Banks Climate Tracker Matrix methodology, with the broader categories of alignment utilised by both the joint MDBs<sup>12</sup> and IDFC,<sup>13</sup> for greater applicability and clarity (see Figure 2). Each of the five areas – detailed in Chapter 2 – have been selected on the basis of being more malleable and accessible assessment areas, as well as being foundational to formulating a roadmap toward full Paris alignment.<sup>14</sup>

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and quality of this information varies depending on how it has been presented in each case. Additionally, financing amounts only reflect the total amount of financial support given to a project, not the precise amount dedicated towards a particular climate use, as this cannot for the most part be determined from publicly available information.

<sup>11</sup> Further information on the E3G Matrix methodology is available at <https://www.e3g.org/matrix/>

<sup>12</sup> Joint MDB Group, **The MDBs' alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient development**

<sup>13</sup> IDFC, December 2018, **Aligning with the Paris Agreement**

<sup>14</sup> Based on E3G's ongoing tracking and research since 2018 when the Public Bank Climate Tracker Matrix methodology was first applied.



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# CHAPTER 1

## CURRENT STATE OF MDB–NDB CLIMATE FINANCE FLOWS IN EMDES

Interactions between MDBs and NDBs on climate finance have the potential to unlock critical investment in climate-related sectors across EMDEs. Although documentation of such interactions is limited to date, a review of existing findings and an analysis of newly collected data provide insights into how MDB–NDB relationships function, which institutions and sectors are involved, and what key benefits and factors characterise these engagements.

A previous mapping of the interrelations of MDBs and NDBs found that they do interact, albeit unevenly across regions and entities.<sup>15</sup> Relationships between MDBs and NDBs include both financial and non-financial interactions, with a wide variety of intended beneficiaries and purposes including micro-, small-, and medium-size enterprises (MSMEs), financial inclusion, and infrastructure development.

For this exercise, information was collected through a series of interviews with NDB representatives, a roundtable discussion at the Finance in Common summit 2023, and the data scraping methods outlined in Annex 1.

### Tracking climate finance interactions

Producing reliable estimates of the volumes of financing between MDBs and NDBs is difficult due to inconsistent reporting. Marois et al. (2023) highlighted this issue concerning financial cooperation to achieve the SDGs. Fuchs et al. (2021) also found that definitions and reporting standards on financial intermediary investments are not harmonised among public financial institutions, making comparisons across various banks difficult.<sup>16</sup> Given current data limitations, it is not possible to have an accurate and systematic picture of

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<sup>15</sup> Thomas Marois et al., January 2023, **From multi- to national- and back again: Realizing the SDG potential of public development banks**. Research methods are based on surveys and a review of annual reports between 2017 and 2021.

<sup>16</sup> Sofie Fuchs et al., June 2021, **Aligning financial intermediary investments with the Paris Agreement**.



the current volumes of climate financial flows from MDBs to NDBs, particularly in EMDEs.

Within this limited-information context, CPI undertook a web scraping exercise of project portals from the ten MDBs jointly reporting on climate finance which led to the identification of a sample of climate-related financial flows from MDBs to NDBs across EMDEs.<sup>17</sup> This data, spanning the period 2015–2022, reveals 42 total transactions involving MDB–NDB joint participation. In 39 instances, NDBs are the recipients of MDB finance, in the form of loans, guarantees, or technical assistance (TA). The remaining three transactions are co-financing arrangements. The full list of bank names and acronyms is available in Annex 1.

Overall, findings suggest that MDB–NDB engagements on climate finance are fairly limited in terms of transaction amounts and frequency. Nevertheless, they show significant variation in the instruments and financing vehicles, institutions, and sectors involved. These engagements most frequently take the form of on-lending from MDBs to NDBs, but also include instances of co-financing and TA.

From 2015 to 2022, the total volume of identified climate-related finance provided by MDBs to NDBs in EMDE countries was approximately USD 5.5 billion (see Figure 1).<sup>18</sup> The largest MDB provider of climate-related financing to NDBs by volume of finance is the New Development Bank, although the Asian Development Bank (ADB) and the European Investment Bank (EIB) record the most transactions by number (see Table 3). Note that these findings are limited to EMDEs, defined as encompassing low- and middle-income countries. Box 1 also provides a snapshot of MDB–NDB flows in high-income economies.

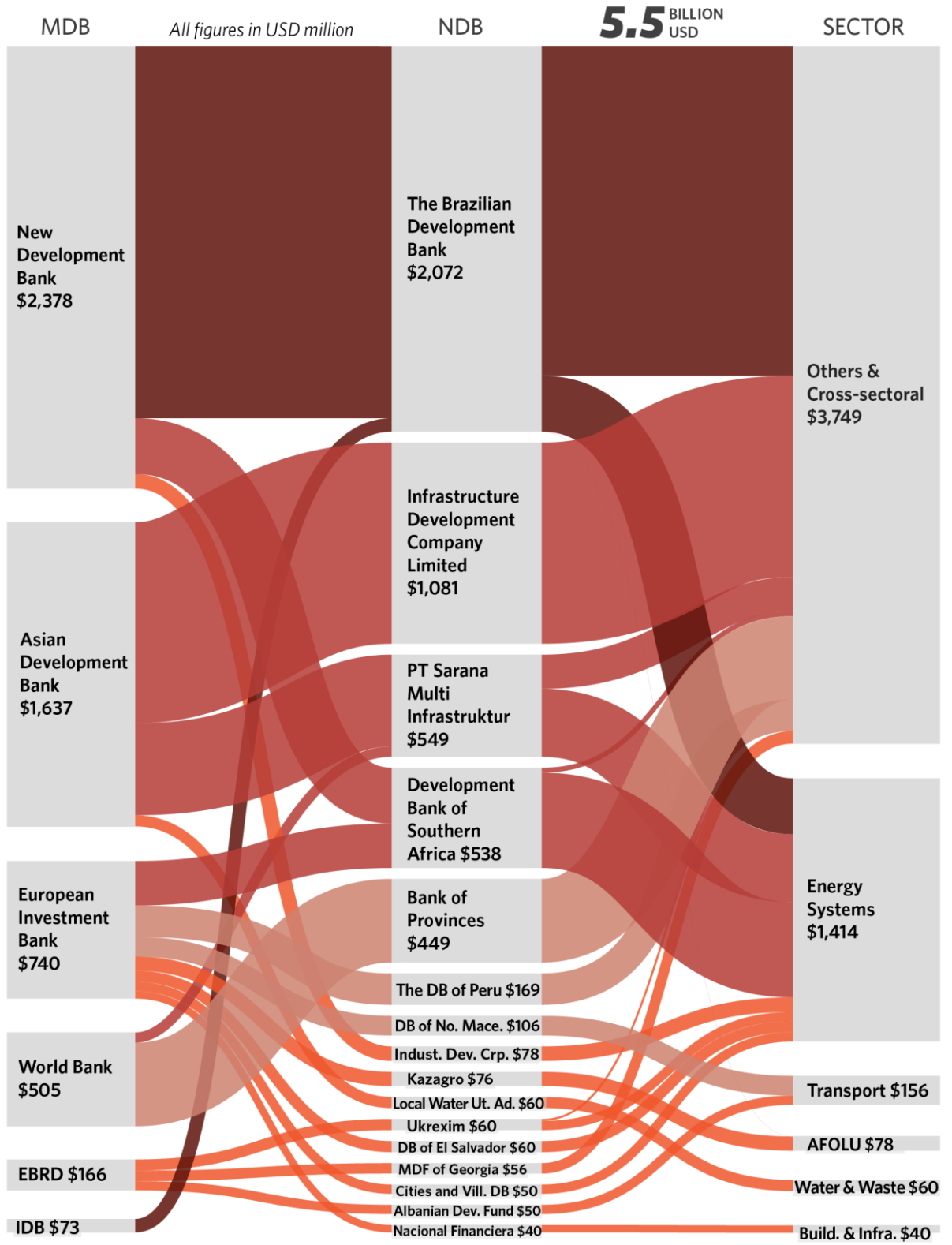
Acknowledging that these findings likely underrepresent total MDB-to-NDB financial flows,<sup>19</sup> additional qualitative research was undertaken to determine more details regarding the structure of these financial relationships. This process focused on how climate finance is ultimately used, the financial instruments used, whether the financing provided was for on-lending or co-financing, the other parties involved in the transaction, and whether TA was associated with the transaction. These results are explored below.

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<sup>17</sup> See Annex 1 for data collection methods and limitations.

<sup>18</sup> Note that this total figure is inclusive of total transaction amounts, for which some component of the intended financing purpose is climate-related. The incremental (i.e., “climate finance”) share of the total transaction amounts that is directly attributable to a particular climate use (i.e., mitigation, adaptation, or both) is not evident from the data source.

<sup>19</sup> Only banks with verified involvement in MDB-to-NDB transactions based on publicly available project data are included in the analysis.



1. NDBs Foreign Trade Bank, Nat'l Bank for Agr. and Rural Dev. and Unknown sum to <5mn and <0.1% of total finance  
 2. DB stands for Development Bank

Figure 1: MDB-to-NDB climate-related finance flows by sector



Table 3: MDB-to-NDB climate-related finance flows by sector (excluding co-financing)

MDB sponsor	Total amount of financing (USD million)	Number of transactions
New Development Bank	2,377.91	5
Asian Development Bank (ADB)	1,636.54	11
European Investment Bank (EIB)	739.65	10
World Bank Group (WBG)	504.50	4
European Bank for Reconstruction (EBRD)	166.14	5
Inter-American Development Bank (IDB)	72.86	4
<b>Grand total</b>	<b>5,497.59</b>	<b>39</b>

### Box 1: MDB–NDB flows in high-income countries

Applying the same methodology to MDB projects in high-income countries (HICs) leads to the identification of 16 joint MDB–NDB projects —13 on-lending transactions and 3 co-financing arrangements. Total tracked MDB-to-NDB finance in HICs amounts to USD 1.3 billion over the period 2015–2022, nearly all provided by the EIB with smaller amounts from the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank (IDB).

Similar to MDB–NDB on-lending and TA in EMDEs, HIC linked transactions generally do not have a singular sectoral focus and instead tend to be bundled in cross-sectoral financing programs. For example, in both HICs and LMICs, COVID relief and economic recovery loans from MDBs to NDBs often included specific provisions for investment in clean energy, electric transport or other climate-related infrastructure.



Additionally, web-scraped data show that usage of MDB-to-NDB financing varies considerably across contexts. Interviews indicate that variation across NDBs in terms of institutional mandates and differing borrower types produces a wide allocation of secondary finance (see Table 4). For example, the Development Bank of Southern Africa (DBSA) often works with municipalities, while other NDBs work with MSMEs, and others on large infrastructure projects.

*Table 4: MDB-to-NDB climate-related finance flows by NDB mandate*

NDB mandate	Mandate description	Total MDB financing (USD million)	Number of transactions
Flexible (FLEX)	General development focus, not sector specific. Ex. BNDES (Brazil).	2,967.36	14
Infrastructure (INFRA)	Develop large-scale, long-term projects, with significant uncertainty, often not considered bankable by the private sector. Ex. PT SMI (Indonesia).	1,629.79	11
Local Government (LOCAL)	Support projects proposed by municipalities, states, and local governments. Ex. Cities and Villages Development Bank (Jordan).	615.83	5
Export–Import (EXIM)	Promote overseas trade through strategic finance. Ex. Bancóldex (Colombia).	166.08	4
Agriculture (AGRI)	Support the agriculture sector, particularly smallholders and key commodities. Ex. Nat’l Bank for Agriculture and Rural Development (India).	78.16	2
MSME	Provide finance to grow domestic small businesses and industries. Ex. NAFIN (Mexico).	40.00	2
Unknown	n/a	0.37	1
<b>Grand total</b>		<b>5,497.59</b>	<b>39</b>





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## Analysis of climate finance flows

Interviews undertaken for this report highlighted significant heterogeneity in how MDBs<sup>20</sup> engage with NDBs, depending on their respective mandates and operating models (e.g., direct credit lines to NDBs versus project-by-project partnerships).<sup>21</sup> Some MDBs provide capital to NDBs via different types of financial instruments, some also offer TA, and some are shareholders of NDBs in member countries.<sup>22</sup>

Relationships also take the form of strategic financing partnerships where MDBs jointly manage third-party funds with NDBs or arrange project-level co-financing; when members of international consortiums, it is common for these banks to coordinate their engagement with MDBs through the International Development Finance Club (IDFC) or other multi-institutional channels. Interviewees also highlighted the fact that MDB objectives (i.e., promoting sustainable development, economic integration, etc.) often coincide with NDB mandates. It is worth noting that climate finance, however, seems to be only one of many priorities when it comes to current MDB–NDB relationships, which also cover the Sustainable Development Goals (SDGs) and, most recently, pandemic response and recovery.

**Recipient institutions:** Tracked recipient NDBs are located across a wide range of geographies and are governed by a diverse array of mandates (e.g., flexible, infrastructure, EXIM, MSMEs, agriculture, etc.).<sup>23</sup> The vast majority (84%) of MDB-to-NDB climate-related finance is received by NDBs with a flexible or infrastructure-focused mandate (see Table 4). However, smaller amounts of finance are also received by banks with a local government, EXIM, agriculture, or MSME focus.

**End use:** Based on traceable data on MDB-to-NDB climate-related financing, it appears that the majority of transactions — both by amount and number of transactions — do not have a distinct sectoral focus and, rather, tend to be

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<sup>20</sup> Defined in the tracking work as the ten MDBs that are part of the joint reporting framework.

<sup>21</sup> To add color to this example, CAF provides a line of direct credit to its member NDBs, without notable constraints on the credit line's use. IDB, in contrast, provides financing for particular projects that it considers to be aligned with regional or national development goals.

<sup>22</sup> For example, The Development Bank of Nigeria Plc has the African Development Bank (AfDB) and the European Investment Bank (EIB) among its shareholders.

<sup>23</sup> Finance in Common, **Public development banks and development financing institutions database** (website), accessed June 2023. Full descriptions of each mandate, as used by the database team, are available at the webpage.



disbursed over multiple sectors (USD 3,749 million; “Others & Cross-Sectoral” in Figure 1). **Project descriptions suggest that these transactions typically aim to support general green investment, recovery from natural disasters or economic distress, or infrastructure development, all areas where investment is much needed.**

Among specific sectors<sup>24</sup> (see Figure 1), energy systems<sup>25</sup> is by far the largest target of MDB-to-NDB climate-related finance, reaching USD 1,414.20 million between 2015 and 2022. (See Box 2 for an example of an MDB–NDB facility focused on renewable energy.) Sectors such as transport, agriculture, forestry, and other land use (AFOLU), water & waste, and buildings & infrastructure receive significantly less MDB-to-NDB financing.

### BOX 2: Local currency facility for renewable energy: Industrial Development Corporation of South Africa Limited (IDC) & the New Development Bank

The Renewable Energy Sector Development Project is designed to accelerate South Africa’s shift towards clean energy. The project aims to increase investment in renewable energy through sub-projects across solar, biomass, and wind energy, in line with the energy generation mix objectives of South Africa’s Integrated Resource Plan and the targeted greenhouse gas reductions in the National Development Plan 2030.

The project is a ZAR 1.15 billion (USD 78 million) financing facility, on-lent to the Industrial Development Corporation of South Africa Limited (IDC) by the New Development Bank. Notably, the loan is denominated in local currency, without a sovereign guarantee. The financing facility was utilised by the IDC to fund (or on-lend to) exclusively solar projects based in the Northern Cape Province of South Africa. Thus, no sub-projects were funded in either the biomass or wind energy sectors. The sub-projects supported through this financing facility include a 100 MW concentrated solar power project with molten salt central receiver and three solar PV plants (each 50 MW) with a battery energy storage system. The project supports the specific objective of unlocking domestic private sector investment as it increases the availability

<sup>24</sup> The sectors used here match the sector definitions used by CPI’s **Global landscape for climate finance**, published November 2023.

<sup>25</sup> Energy systems is defined in the GLCF as comprising power and heat generation, power and heat transmission and distribution, fuel production, fuel transmission and distribution, policy and national budget support and capacity building, and other unspecified energy projects.



of long-term local currency funds. Accordingly, the project expects to raise an additional ZAR 10.5 billion in co-financing, with the stipulation that NDB financing may not exceed 50% of the costs of any given sub-project, unless otherwise agreed by the New Development Bank. Sub-projects will be procured through a competitive bidding process and will be required to comply with South Africa's environmental and social framework.

Following implementation (2019–2023), the project is expected to lead to annual clean energy generation of around 500 GWh, corresponding to annual reduction of roughly 480,000 tCO<sub>2</sub>e. In addition to these immediate impacts, the project has the potential to demonstrate the viability of local currency finance for renewable energy projects in South Africa over a longer timeframe, and possibly increasing future access to finance for the sector.

**Instruments:** Within tracked MDB-to-NDB climate-related financing data, 33 out of 39 transactions are structured as debt agreements in hard currencies (loans and credit lines), though four stand-alone TA arrangements were also found within this data. This finding largely comports with relevant literature, as Marois and Stewart (2023) find that the most common types of instruments for MDB–NDB financing are non-concessional loans, concessional loans, and grants, followed by use of guarantees and equity.

Interviews also highlighted the advantage of lines of credit as a fast and flexible mode for transferring funds from MDBs to NDBs. However, in many cases, credit lines are structured as general-purpose financing rather than being ringfenced for climate purposes. For example, during the COVID-19 pandemic, much of CAF's general-purpose line of credit for member NDBs was used for pandemic recovery. Thus, while MDB-to-NDB credit lines can be an efficient method of financial mobilisation, this method does create some risk for the traceability of use of funds if not properly demarcated.

Debt financing from MDBs to NDBs comes with varying terms. For example, for smaller regional banks (e.g., CAF, which only has one shareholder) there is a provision of shorter term and more quickly disbursed financing than for larger banks (e.g., IDB and EIB, which have multiple shareholders). Beyond debt, interviewees also highlighted MDB guarantees (and other risk-sharing mechanisms) as having potential to catalyse greater investment around NDB projects, although only one of the 37 transactions was identified in the data (see Box 3 for an example of an MDB private sector guarantee).



### BOX 3: Private sector guarantees for MDB–NDB financing: BNDES and CAF

The São Paulo Metro Line 6 project in Brazil is the largest public–private partnership (PPP) infrastructure project currently under construction in Latin America. It involves the construction, operation, and maintenance of a new 15.3-km subway line and the establishment of 15 stations via a special purpose company, with a total investment cost of BRL 18 billion (approx. USD 3 billion). Project documents indicate that the ex-ante climate impact of the project is an estimated 143,000 tCO<sub>2</sub>e emissions avoided per year.

The project has been financed through a 20-year limited recourse loan provided by the National Development Bank of Brazil (BNDES) and supported by bank guarantees totalling over USD 627 million (BRL 3.31 billion). The guarantees were provided by a consortium of ten private and public financial institutions including the Development Bank of Latin America (CAF) and a group of commercial banks (BNP Paribas, Banco Santander, JP Morgan, Instituto de Credito Oficial, Banco Sumitomo Mitsui Brasileiro (SMBCB), The Intesa Sanpaolo Group, Credit Agricole CIB, Bradesco Bank, and the American Bank of Commerce Brazil). Guarantors were paid a fee corresponding to amounts disbursed by BNDES.

CAF, which assumed ~2% of total debt risk, assisted in attracting private sector participation in the project financing structure, which was transacted completely in local currency. Critical to attracting private participants were the following: (i) a long-term non-recourse loan from BNDES to the Concessionaire and also a loan to the State of São Paulo to assure the public investments in the Line 6 Metro PPP, (ii) a security package, with adequate liquid guarantees, provided by sponsors and suppliers, mainly regarding the construction risk, the major one in a greenfield metro line (iii) independent due diligence provided by legal, demand, insurance, ESG, tax, projection and engineering consultants with well-known reputation and track record; (iv) a balanced risk allocation in the PPP; and (v) sponsors financial and operational capacity and track record.

The São Paulo Metro Line 6 financing structure is expected to become a precedent for long-term project financing to foreign financiers and investors looking to enter the Brazilian market, with potential for expansion across Latin America.



**On-lending & co-financing:** The findings suggest that after the primary MDB-to-NDB financing is structured, NDBs will then assume the role of either an on-lender of MDB financing to climate projects and enterprises or as the executing agency of a sovereign loan. In both cases, the NDB is responsible for directing initial MDB financing in the form of secondary transactions towards sectors and projects with an intended climate and development impact.

These secondary transactions can vary greatly in terms of format, taking the form of direct financing to projects, municipalities, PPP facilities, and corporate credit lines. The due diligence process which precedes these secondary transactions depends on each NDB. In light of this and due to the lack of data documenting these financial flows, it is not always possible to trace the original finance to its end use. In addition, limited examples of joint MDB–NDB co-financing have been identified. It is likely that a greater number of joint MDB–NDB co-financing arrangements exist but were not identified due to gaps in reporting.<sup>26</sup>

**Additional actors:** Regarding other third-party actors involved in MDB-to-NDB financing, one common structure is a sovereign guarantee of loans made to NDBs, thus requiring the involvement of national governments. This is often seen as a de-risking measure, particularly for large loans, although some interviews highlighted these guarantees as potentially posing political and bureaucratic hurdles due to the need for many local institutions to come to an agreement on risk factors and how to best address them.

Finally, interviews suggest that cooperation with multilateral climate funds has been helpful to access concessional support, allowing for more capital to be allocated at the same level of risk. For example, the DBSA blends credit lines from MDBs with concessional finance from their Green Climate Fund (GCF) facility,<sup>27</sup> which they are able to access as a GCF-accredited entity. Similarly, a joint Nacional Financiera (Mexico) and IDB project blends IDB financing with Clean Technology Fund concessional flows from the Climate Investment Funds (CIF).<sup>28</sup>

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<sup>26</sup> The data collection method for identifying joint MDB–NDB financing requires that a co-investing NDB is mentioned either in the project name or description. It would seem plausible that there are a number of instances where NDBs co-financing a project or financing facility but are not explicitly mentioned and thus are not identified.

<sup>27</sup> Green Climate Fund, **FP098 – DBSA climate finance facility** (webpage), accessed November 2023

<sup>28</sup> IDB, **Mexico: CTF renewable energy financing facility**



**TA & capacity building:** Marois and Stewart (2023) find that project preparation, convening, and advisory services are prominent non-financial ways in which MDBs and NDBs interact. They note that there is promise in MDBs leading TA programs for NDBs focused on climate finance, but there has been difficulty in fully communicating the assistance available, how to access it, and how it supports NDB priorities.

Only four TA transactions are recorded in the web-scraped MDB-to-NDB climate-related financing data.<sup>29</sup> The scope of TA ranges from the development of climate risk insurance products, to the structuring of PPP facilities, to the origination of climate projects across sectors. In one case of TA provided by ADB to Infrastructure Development Company Limited (IDCOL) in Bangladesh, non-financial support for project pipeline development was granted as a complementary measure to MDB-to-NDB financing.<sup>30</sup> See Box 4 for another example of MDB–NDB TA supplementing the provision of a loan.

Interviews highlight a need for more TA to familiarise commercial staff of NDBs with best practices on climate finance. For example, in Brazil, CAF has helped NDBs identify which of CAF’s development objectives apply to each project that they finance to support greater financing. CAF also supported analysis of environment and social risks for clients in the financial sector, as well as the development of risk assessment practices for individual projects. In Bolivia, CAF additionally provided TA to an NDB to support the issuance of its first sustainable bond.

Aside from *ad hoc* project support, TA is also provided by MDBs on a long-term basis. For example, IDB has a working group with The Latin American Association of Development Financing Institutions (ALIDE) on Paris alignment, along with a non-reimbursable technical cooperation program.<sup>31</sup> The IDB TA program has been developed for four key areas, which have consistently voiced by NDBs as areas for support.<sup>32</sup> These are:

1. Self-assessment regarding the level of appropriation of the bank towards climate finance.

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<sup>29</sup> Due to the limitations of this data approach outlined in Annex 1, this is likely an underrepresentation as the data was scraped from project portals, and not all TA agreements are categorised as projects by MDBs.

<sup>30</sup> Asian Development Bank, **Bangladesh: Strengthening the capacity of Infrastructure Development Company Limited**, accessed November 2023

<sup>31</sup> IDB, **Greening national and sub-national development banks towards Paris alignment**, accessed November 2023

<sup>32</sup> Climate Policy Initiative, June 2015, **Emerging solutions to drive private investment in climate resilience**



2. Market analysis to evaluate potential demand for green product(s).
3. Risk management assessment, including environmental and social management systems and climate risk management.<sup>33</sup>
4. Support for the design of a holistic climate strategy.

Interviews with NDBs also highlighted the importance of TA for project preparation, to ensure that NDBs have a pipeline of bankable projects that MDBs can support.

#### **BOX 4: MDB–NDB capacity building to supplement financing: PT SMI and ADB**

The Sustainable Development Goals Indonesia One - Green Finance Facility (SIO-GFF) aims to support Indonesia's progress towards its SDGs. The SIO-GFF is managed by PT SMI and acts as a financing channel for green, bankable infrastructure projects that promote sustainable recovery from the COVID-19 pandemic.

The key financial instrument involved is a 20-year financial intermediation loan of USD 150 million on-lent by the ADB to PT SMI to support the SIO-GFF in financing green and SDG-impacting sub-projects (ADB, 2022). Funds will be used by PT SMI to partially finance up to ten projects worth USD 423 million, with the remaining funds sourced by mobilising private sector co-investment. In addition, ADB is providing TA to PT SMI for capacity building and implementation support, as well as helping project pipeline development for future SIO-GFF phases and developing innovative financial instruments.

The SIO-GFF could catalyse projects with a total cost of approximately USD 1 billion (assuming ADB loan funds are used twice during the loan tenor and supplemented by private co-investment each time) and is projected to reduce CO<sub>2</sub> emissions by approximately 480,700 tCO<sub>2</sub>e annually. In addition, SIO-GFF is the first green finance facility in Southeast Asia and sets a precedent as one of the first SDG financing initiatives in the world. As such, it has potential for scale and replicability across other contexts.

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<sup>33</sup> IDB developed a toolkit to help clients identify physical risks and are now working on another toolkit for transition risks.





**Operational challenges impacting greater MDB–NDB climate finance**

**engagement:** Conversations with MDBs, NDBs, and external experts, along with available literature, highlighted that greater climate finance flows between MDBs and NDBs are potentially impeded by a variety of operational challenges, which can materialise on either side of the relationship. A number of these are summarised in Table 5, with details regarding the different MDB and NDB perspectives to the factor. Challenges pertain to aspects such as institutional mandate, currency risk, general risk appetite, robustness of investment pipelines, constraints in the role of financial intermediary, bureaucratic hurdles, and political influence — potentially hindering the realisation of the full potential engagement from both MDB and NDB perspectives.

While MDBs and NDBs may have more control over these operational challenges rather than they do over the systemic factors discussed in Chapter 3, overcoming these hurdles is still likely to surpass the capacity of many NDBs without support. As such, there may be a need to address some of these issues as part of the broader IFA reforms under consideration. Adjusting official development assistance (ODA) accounting rules to promote the use of guarantees or providing more loans in local currency and supporting the development of domestic capital markets, are some examples of how this could be approached.

*Table 5: Challenges impacting climate finance flows by perspective*

Barrier	MDB perspective	NDB perspective
Political economy & governance	Shifting political priorities can pose challenges for the viability of long-term partnerships with NDBs.	Exposure to shifting national policy priorities can derail partnerships with MDBs, especially when bank governance is affected by changes in government.
Institutional climate mandate	There is a lack of familiarity with NDBs’ different mandates and operating models.	NDB mandates do not always contain clear climate investment objectives, and do not always have operating frameworks for implementing them. NDBs also lack clarity on what MDBs are willing to fund, and at what cost.



Table 5 (continued): Challenges impacting climate finance flows by perspective

Barrier		MDB perspective	NDB perspective
Currency risk		The competitiveness of MDB financing, including local currency financing, can be reduced by factors like sovereign fiscal constraints and challenges of external debt levels and/or weak balance sheets of some NDBs, as well as concerns regarding risk management and credit ratings.	MDB funding provided in hard currencies is not always competitive: depreciation can make it more expensive to repay the loans and there is a high cost of hedging instruments. A lack of local currency financing can expose NDBs and sovereigns to currency exchange risk.
General risk appetite		Scarcity of concessional financing often means that not all risks can be mitigated when cooperating with NDBs. MDBs are also concerned about taking risks that may affect their international credit rating.	NDBs need more competitive financing to effectively invest in climate projects – including in local currency, for longer tenures, and across all stages of projects. To address this, MDBs can further leverage their balance sheets to crowd in other sources of capital, or modify the conditions of loans, though this is dependent on local markets and private sector appetite.
Institutional capacity & expertise	Project pipelines	Insufficient pipelines of NDBs' bankable projects can impede MDBs in targeting lending, as well as their overall appetite for collaboration.	MDB funding criteria are not always amenable to the local context of NDBs, requiring advanced levels of project preparation and bankability. This results in missed opportunities to fund early-stage projects.
	Financial intermediation	Partnership structures do not always provide requisite visibility on where NDBs are allocating on-lending (or other secondary investment), making it hard to evaluate climate impacts and hindering traceability.	At times, the duration of MDB funding is not sufficiently long-term for the development of certain types of climate projects (e.g., large infrastructure) targeted by NDBs.
	Procedures and approval policies	MDBs have stringent requirements for underwriting, monitoring, and reporting (in line with international standards), which limit the instruments they commonly use (i.e., preferring loans over guarantees).	The stringent MDB reporting requirements may be difficult for NDBs to meet due to lack of capacity and emissions data. NDBs are also subject to local regulation, which may complicate international reporting processes even further, and add in additional transaction costs.



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## CHAPTER 2

# PROGRESS ON PARIS ALIGNMENT ACROSS MDBS AND NDBS

As MDBs and NDBs have begun to collaborate on joint climate finance arrangements, they have also been working in parallel to mainstream climate considerations into their overall operating structure and processes. Comprehensive climate mainstreaming<sup>34</sup> – which can facilitate convergence between MDBs and NDBs in terms of institutional direction, procedures, and standards – will be crucial to unlocking further climate finance flows through MDB–NDB cooperation.

However, progress on aligning financial flows with the goals of the Paris Agreement (as a proxy for climate mainstreaming) is varied, both amongst MDBs, as well as NDBs. It is worth highlighting that given the differences in mandate, technical capacity and financial operating structure, different types of institutions should not be subject to the same specific expectations. As such, variation in both the internal and external contexts faced by institutions must be factored in when gauging progress against overall alignment goals.

This section assesses the state of progress on Paris alignment by MDBs and NDBs across several key dimensions based on the abbreviated version of the E3G Public Bank Climate Tracker Matrix:<sup>35</sup> (1) direct finance; (2) indirect finance; (3) institutional strategy and governance; (4) adaptation and resilience; (5) energy policy. Understanding divergence on Paris alignment progress can shed light on any shared factors also affecting climate finance partnerships, and therefore help to identify key areas to address for improved MDB–NDB cooperation.

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<sup>34</sup> IDDRI, October 2020, **Scaling up public development banks' transformative alignment with the 2030 Agenda for Sustainable Development**

<sup>35</sup> E3G, **Public Bank Climate Tracker Matrix** (webpage), accessed November 2023



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## Public development bank Paris alignment

The first explicit public development bank commitment to aligning finance with the goals of the Paris Agreement on climate change came in the form of a joint IDFC–MDB statement at the 2017 One Planet Summit.<sup>36</sup> Already at this stage, the need for collaboration between PDBs was recognised:

“Turning the Paris Agreement into concrete action requires new cooperative approaches. In this spirit of collaboration, the IDFC members and MDBs are teaming up, two years on from the historic moment at COP21, to reaffirm their joint commitment to align their financial flows with the Paris Agreement.”

*Joint IDFC–MDB Statement, 2017, p.2*

Since this initial commitment, the signatory MDBs have established the joint MDB framework for Paris alignment,<sup>37</sup> made up of six “building blocks”, accompanied by dedicated technical notes for BB1 and BB2.<sup>38</sup> In 2023, a full joint MDB methodology for alignment with the Paris Agreement was published,<sup>39</sup> and is in the process of being adopted, complemented or adapted (depending on the MDB in question) across contributing institutions.<sup>40</sup>

In parallel, the International Development Finance Club (IDFC), which includes 18 NDBs among its members, has set out six principles for aligning with the Paris Agreement.<sup>41</sup> Other methodologies for implementing alignment with the Paris Agreement have also emerged, notably including that of the European Development Finance Institutions (EDFI).<sup>42</sup>

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<sup>36</sup> Joint IDFC–MDB statement, **Together major development finance institutions align financial flows with the Paris Agreement**

<sup>37</sup> Joint MDB Group, **The MDBs’ alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient development**

<sup>38</sup> Joint MDB Group, November 2021 **Joint MDB assessment framework for Paris alignment for direct investment operations** (draft)

<sup>39</sup> European Investment Bank, June 2023, **MDBs agree how to align new financial flows with the Paris Agreement goals**

<sup>40</sup> The **Joint MDB methodological principles for assessment of Paris Agreement alignment** are broken down further into four “instrument methods” and a universally aligned/unaligned list. Notably, there is a dedicated methodology for **intermediated financing**.

<sup>41</sup> IDFC, December 2018, **Aligning with the Paris Agreement**

<sup>42</sup> EDFI, November 2020, **EDFI statement on climate and energy finance**

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E3G’s Public Bank Climate Tracker Matrix (first developed in 2018)<sup>43</sup> applies a more granular methodology, made up of 15 metrics, to track the progress of PDBs on Paris alignment. To complement this full, detailed methodology, and to allow for broader applicability across a wider range of institutions, an abbreviated Matrix methodology has been developed by E3G in 2023, made up of six “core components” of alignment.

MDB metrics	EDFI metrics	IDFC metrics	E3G metrics
Climate finance	Align financing with Paris goals and net zero emissions by 2050 through ambitious green finance targets and mobilising private sector finance	Climate finance	Direct finance
Resilience		Mobilisation of private finance	Indirect finance
Internal activities	Embed climate action at all levels of institution	Adaptation	Adaptation and resilience
Mitigation	Progressively limit fossil fuels until complete exclusion in 2030	Internal transformation	Institutional strategy and governance
Engagement & policy support	Strategically support clients promote green growth	Transition from fossil fuels to renewables	Energy policy
Reporting	Climate financial disclosures	Country-led climate policies support	Country-level engagement
		-	<i>Transversal</i>

Figure 2: Prominent methodologies designed and published by PDBs (the Joint MDB Group, IDFC, and EDFI respectively), alongside E3G-proposed “core components” of its abbreviated version methodology to gauge Paris alignment.

The abbreviated E3G methodology comprises fewer, more widely applicable core principles, more closely resembling the structure of the frameworks put forward by PDBs. Drawing on engagements with PDBs and the design of the PDB-originated frameworks, a six-metric assessment framework has been constructed, covering: (1) direct finance; (2) indirect finance; (3) institutional strategy and governance; (4) adaptation and resilience; (5) energy policy; and (6) country-level work. Transparency and reporting are considered a crosscutting element applicable across components. In this study, we focus on the initial five

<sup>43</sup> E3G, **E3G Public Bank Climate Tracker Matrix** (webpage), accessed November 2023



metrics; country-level work is implicitly addressed in this analysis through the inclusion of both NDBs and MDBs.

### E3G core components of alignment

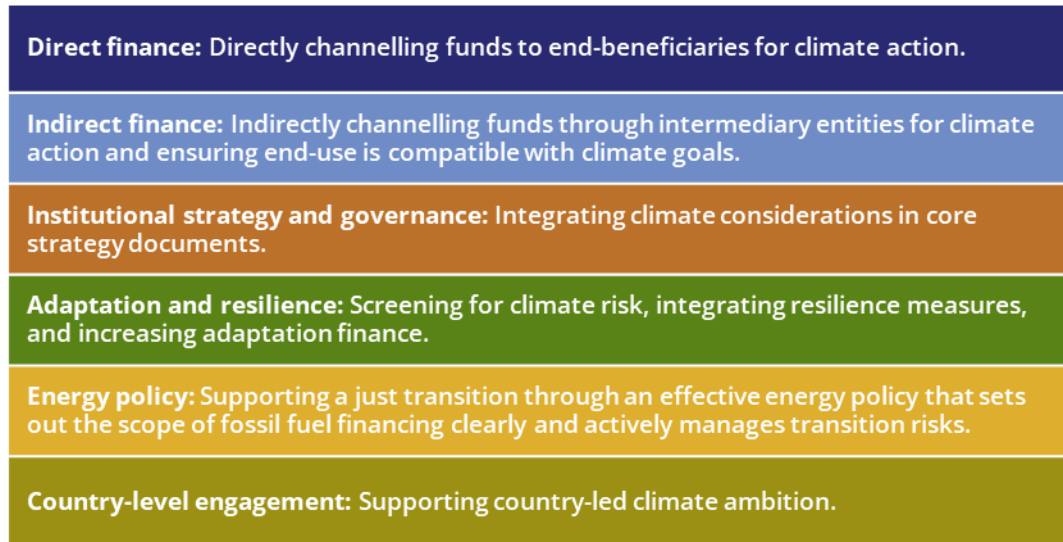


Figure 3: Six core principles of Paris alignment (broadly in line with prominent methodologies designed and published by the Joint MDB Group, IDFC, and EDFI) with the top-line expectation of PDBs under each.

A sample of 12 institutions was selected, with comparable regional coverage across Latin America and the Caribbean, Africa, and Asia, comprising six MDBs and six NDBs (see Table 6).<sup>44</sup> Beyond equal geographical representation, the selection of institutions is also intended to provide equal coverage across MDBs and NDBs, and varied representation in terms of size. This analysis should not be misconstrued as being representative of all PDBs. Rather, it provides a snapshot of Paris alignment progress across a cross-regional “basket” of NDBs and MDBs. Within this snapshot, similarities, disparities, and trends which emerge can provide insight into possible patterns in progress on Paris alignment across the full ecosystem of PDBs.<sup>45</sup>

Detailed information on each bank, across each metric, is available in Annex 2.

<sup>44</sup> As evident in Table 6, the MDBs selected were not limited to those included in the joint reporting framework.

<sup>45</sup> For the purpose of this research, the vast majority of data was collected from publicly available sources. In some cases, supplementary details were provided by the institutions themselves, which were each given the opportunity to review the working report.



Table 6: Cross-regional sample of MDBs and NDBs analysed

Region	MDB	NDB
Asia	Asian Infrastructure and Investment Bank (AIIB)	China Development Bank (CDB) <sup>46</sup>
	Asian Development Bank (ADB)	PT Sarana Multi Infrastruktur (PT SMI)
Africa	African Development Bank (AfDB)	Development Bank of Southern Africa (DBSA) <sup>47</sup>
	West African Development Bank (BOAD) <sup>48</sup>	Caisse de Dépôt et de Gestion (CDG)
Latin America and the Caribbean	The Development Bank of Latin America and the Caribbean (CAF) <sup>49</sup>	Brazilian Development Bank (BNDES)
	Inter-American Bank of Development (IDB)	Banco de Comercio Exterior de Colombia (Bancóldex)

<sup>46</sup> While being comparable to NDBs in the sense of being wholly owned by the Chinese Government, CDB has a mandate for intervention internationally rather than just its country of origin, thereby technically being a “bilateral” development bank, rather than a purely national one.

<sup>47</sup> While being comparable to NDBs in the sense of being wholly owned by the Government of South Africa, DBSA has a mandate for intervention across “Southern Africa” rather than just its country of origin, thereby technically being a “bilateral” development bank, rather than a purely national one.

<sup>48</sup> While having multiple shareholders and catering to clients across its region of operation, BOAD is not part of the joint MDB reporting framework, from which the data on MDB–NDB financing was collected. As such, individual climate finance flows from this MDB are not covered in the relevant section.

<sup>49</sup> While having multiple shareholders and catering to clients across its region of operation, CAF is not part of the joint MDB reporting framework, from which the data on MDB–NDB financing was collected. As such, individual climate finance flows from this MDB are not covered in the relevant section.





## Progress on Paris alignment across twelve PDBs

Progress on Paris alignment across the institutions examined is significant, but mixed.<sup>50</sup> This section covers the findings across each of the five core aspects of alignment. The analysis shows that progress in achieving alignment with the Paris Agreement varies both between MDBs, as well as between NDBs. Notwithstanding this heterogeneity, some patterns emerge across the two types of institutions.

### Direct finance

#### Key takeaways

- > All six MDBs analysed have established targets or thresholds for climate finance, and mostly share common definitions for mitigation and adaptation financing.
- > NDBs' approaches to accounting for and setting targets for climate finance vary considerably, though many seek alignment with their NDCs.
- > Having shared definitions and common accounting methodologies provide a basis for more effective monitoring and evaluation, particularly when considering ecosystem-level impact and priority areas.

### MDBs

While there is variation in scope and definition, all six of the MDBs analysed have established targets or thresholds for financing dedicated toward climate:

- > AfDB, ADB, AIIB, and IDB all have targets for the proportion of their operations tagged as climate finance. Common definitions for the mitigation and adaptation components of these are provided by the common principles for climate mitigation finance tracking<sup>51</sup> and the joint methodology for tracking climate change adaptation finance.<sup>52</sup>
- > BOAD similarly has a climate finance target in place. Its accounting methodology combines the common principles for climate mitigation finance

<sup>50</sup> A full, synthesised, summary of findings across all 12 institutions for each metric can be found in Annex 2.

<sup>51</sup> Joint MDB Group & IDFC, October 2021, **Common principles for climate mitigation finance tracking**

<sup>52</sup> Joint MDB Group, November 2022, **Joint methodology for tracking climate change adaptation finance**, November 2022



tracking with the common principles for climate change adaptation finance tracking.<sup>53</sup>

- > CAF has a target for annual approvals dedicated to climate mitigation and adaptation, however, it is unclear whether it is also using the common principles for climate change tracking (both for mitigation and adaptation).<sup>54</sup> CAF also uses the terminology of “green finance” and “green portfolio” but the definition of “green” for tracking purposes is less clear, particularly with regards to climate change mitigation and adaptation finance.

### NDBs

In contrast, the approaches to accounting for and setting targets for climate finance appear varied more considerably between the NDBs examined. In cases where they were identified, “green” targets were often anchored in country NDCs, whilst accounting procedures were less transparently standardised, despite all institutions being IDFC members.<sup>55</sup>

- > Rather than explicitly tracking or targeting climate finance, BNDES focuses on disbursements related to SDG 13 to limit and adapt to climate change.<sup>56</sup> The bank also has a portfolio carbon neutrality target by 2050, in alignment with Brazil’s NDC.
- > Similarly, Bancóldex has committed to supporting projects that contribute to the fulfilment of Colombia’s NDC. However, its public reporting and targets are limited to financing specifically related to “green growth” and “green portfolio”, as opposed to specifically climate mitigation and/or adaptation.
- > CDG is committed to financing climate change mitigation and adaptation projects in line with Morocco’s NDC, although it has no public, formal targets in this regard.
- > DBSA has similarly committed to support South Africa’s NDC, but does not include climate finance (or any other denomination, such as “green finance”) in its annual reporting.
- > PT SMI, on the other hand, aims to increase climate change mitigation finance as a proportion of its operations, although it is not clear how it plans

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<sup>53</sup> Joint MDB Group & IDFC, July 2015, **Common principles for climate change adaptation finance tracking**

<sup>54</sup> Further reporting is also done as part of the IDFC’s Green Finance Mapping.

<sup>55</sup> IDFC members are all required to report climate mitigation and adaptation finance totals directly to IDFC according to the common principles for climate **mitigation** and **adaptation** finance tracking.

<sup>56</sup> SDG 13 calls for “urgent action to combat climate change and its impacts”. **Goal 13 | Department of Economic and Social Affairs (un.org)**



to ensure that adaptation finance or other financial flows are consistent with the Paris Agreement.

- > The approach of CDB involves setting a target for “green loans” as a proportion of credit assets, rather than an explicit climate finance target. Nevertheless, it reports climate mitigation and adaptation totals as part of its IDFC membership.

#### Comparing progress on Paris alignment of direct finance

The comparative research across the sample of PDBs reveals a higher degree of cohesion among MDBs than NDBs in terms of climate finance tracking and target setting. This difference could be partially attributed to four of the six MDBs (ADB, AIIB, AfDB, IDB) sharing an established common methodology for accounting. However, it is worth highlighting that all the NDBs examined are members of the IDFC. As such, they have access to these common accounting principles and report climate mitigation and adaptation flows within this framework.

Consequently, it would be reductive to solely credit the consistency displayed by MDBs in this regard to the existence of a shared methodology. This may also be explained by the typically greater institutional capacity of MDBs compared with NDBs possibly being an advantage in terms of coordinating and implementing definitions and targets, as well as tracking progress. Alternatively, sensitivity to national preferences to avoid restricting funding possibilities can make broader, “green” targets more feasible for NDBs to adopt, as opposed to more standardised, stringent “climate” definitions and targets.

#### Indirect finance

##### Key takeaways

- > The six MDBs typically extend the environmental safeguards and exclusion requirements of their direct lending policies to cover lending through financial intermediaries, including provisions for such intermediaries as part of their environmental and social safeguards.
- > The NDBs examined have greater variability in terms of available information and the detail of policies applied to financial intermediary financing, though most do extend their own frameworks and guidelines to intermediaries.



- > Detailed information on the precise benchmarks and minimum standards required by financial intermediaries is not always publicly available, and while technical assistance is occasionally provided to assist with compliance, it appears highly inconsistent. Nevertheless, leading initiatives do exist.

In the context of this study, policies on indirect finance are particularly relevant, given that NDBs are themselves financial intermediaries for MDBs. As such, when examining MDB–NDB relationships, the policies of MDBs for FIs should be understood as covering the **direct** financing of NDBs. That said, it is also relevant to consider the indirect financing policies of NDBs themselves. Not only do these constitute an important aspect of climate mainstreaming, but depending on the financing arrangements, funds received by NDBs in their capacities as financial intermediaries (from MDBs) can in some cases subsequently be on-lent by the NDBs to secondary intermediaries.

It is also worth highlighting that for several of the MDBs in this selection (namely ADB, AfDB, AIIB, and IDB) the recently published joint MDB methodology on Paris Agreement alignment,<sup>57</sup> as well as any individually developed methodologies, include relevant stipulations for financial intermediary operations. Out of this group, the AfDB and ADB are currently only applying the dedicated intermediated financing principles of the joint MDB methodology, while AIIB and IDB have developed supplementary methodologies specific to their own operations.

### MDBs

Across the six MDBs considered, the environmental safeguards applied across direct lending policies are typically extended to cover lending through financial intermediaries. Illustratively, all the MDBs analysed include provisions for FIs as part of their environmental and social safeguard (ESS) policies.<sup>58</sup>

- > Across all six sets of indirect financing policies examined, the MDB is required to either directly assess, or verify the financial intermediary’s own assessment of the environmental and social impacts resulting from the planned operations. However, the exact scope and stringency of these frameworks (including the level of publicly available detail) varies,

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<sup>57</sup> Joint MDB Group, **Joint MDB methodological principles for assessment of Paris Agreement alignment**, accessed November 2023

<sup>58</sup> See relevant section in Annex 2 for the relevant policy documents considered across the MDBs analysed.



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particularly regarding the implementation of sufficient management strategies.

- > ADB, AIIB, AfDB, IDB and CAF all assess the suitability of their clients' environmental and social management frameworks (ESMF), or require policies of this kind to be produced where not already in place. These five MDBs all also explicitly require financial intermediaries to comply with their respective exclusion lists.
- > Of these five, AfDB and AIIB explicitly confirm their own ESS frameworks apply to financial intermediary operations. ADB conducts "safeguard due diligence" to determine the necessary steps, which can result in no ESMF being required.
- > For CAF, it is not explicitly made clear how the standard required of a prospective financial intermediary's ESMF corresponds to its own ESS framework. For example, while the IDB may similarly rely on a prospective client's own ESMF, this can only be the case provided functional equivalence is guaranteed with IDB's own framework.

MDBs' requirements regarding the ESMFs of clients tend to be accompanied by broad commitments to support financial intermediaries in addressing any gaps in these policies as required. However, concrete detail on how and when such intervention is carried out is rarely provided. Nevertheless, some banks have developed dedicated initiatives to parallelly support prospective financial intermediaries with managing risks and climate mainstreaming in their operations.

As a leading institution in this regard, IDB has (alongside ALIDE) established a regional Working Group on Alignment to the Paris Agreement (WGPA) to support other PDBs in the process of alignment. The Bank has also published a guidebook for national development banks on climate risk.<sup>59</sup> As another leading example, the AfDB has the African Green Bank Initiative which aims to de-risk investments in low-carbon and climate-resilient projects in Africa through TA.

### NDBs

The NDBs examined show greater variability in terms of available information and the detail of policies applied to financial intermediary financing.

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<sup>59</sup> IDB, June 2021, **A guidebook for national development banks on climate risk**



- > DBSA specifically requires clients to describe the climate change influences on and impacts of a given project, as part of its comprehensive ESS. The bank also engages with clients on this, including by supporting annual review monitoring and compliance with their ESS obligations.
- > BNDES requires financial intermediaries to guarantee that environmental and social management procedures are in line with its own guidelines and any “other applicable BNDES regulations”. Financial intermediaries that are accredited to receive “automatic support” by BNDES are in turn responsible for the compliance of their own clients with BNDES’ socioenvironmental policy.
- > PT SMI and Bancóldex similarly each apply their own frameworks across all operations, including those with FIs. The latter states that it will support and capacitate financial intermediaries in the adoption of best environmental and social practices,<sup>60</sup> yet information on how this will be operationalised is not available.
- > For CDG and CDB, information regarding the extent to which these institutions have climate-related requirements and risk screening procedures for intermediary lending is very limited. There is also no clarity on which policies guide engagement, and whether there is scope for TA being provided to clients to ensure compliance with any ESG or climate-related standards.<sup>61</sup>

Comparably concrete, dedicated initiatives to support prospective financial intermediaries with managing risks and climate mainstreaming in their operations, were not identified among the NDBs examined.

#### Comparing progress on Paris alignment of indirect finance

While the majority of the 12 institutions examined do have some climate-related ESS requirements in place, the stringency of such requirements applied to indirect finance varies considerably. Detailed information on the precise benchmarks and minimum standards required is not always publicly available. Moreover, the extent to which institutions provide TA to assist financial intermediaries with ensuring the appropriate climate risk screening and environmental safeguarding standards are upheld appears highly inconsistent. Although several institutions refer to assisting financial intermediaries in this regard, details on how this is operationalised are rare. However, there are

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<sup>60</sup> Bancóldex, May 2022, [Sistema de administración de riesgos ambientales – SARAS \(video\)](#)

<sup>61</sup> CDG does relevantly **collaborate** with FSD Africa to support the integration of environmental criteria into corporate financing strategies.



indications that MDBs are active in providing TA to financial intermediaries outside of specific financing partnerships, with dedicated, valuable initiatives having been established for this purpose (in some cases targeted at NDBs).<sup>62</sup>

### Institutional strategy and governance

#### Key takeaways

- > The overarching strategies of the MDBs analysed all integrate climate change considerations, although specific reference to the Paris Agreement is not always present. Five of the six MDBs analysed have published dedicated climate change strategies. CAF also appears to have one, though it is not publicly available.
- > The NDBs examined have incorporated climate into core strategic documents, largely within the context of reaching NDCs, and some have additional climate-specific strategies.

#### MDBs

Climate change considerations are integrated into the core strategic documents of all the MDBs analysed, although specific reference to Paris Agreement is less consistent.

- > ADB's "Strategy 2030",<sup>63</sup> AIIB's corporate strategy 2021–2030,<sup>64</sup> IDB's "Vision 2025",<sup>65</sup> and BOAD's 2021–2025 strategic plan<sup>66</sup> all clearly reference commitments to the goals of the Paris Agreement.
- > At the time of writing, AfDB has yet to issue an updated overall strategy to replace its 2013–2022 document<sup>67</sup> (published before the Paris Agreement).

<sup>62</sup> See for example, IDB's (alongside ALIDE) regional **Working Group on Alignment to the Paris Agreement (WGPA)** and the AfDB's **African Green Bank Initiative**.

<sup>63</sup> ADB, July 2018, **Strategy 2030: Achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific**

<sup>64</sup> AIIB, September 2020, **Corporate strategy – Financing infrastructure for tomorrow**

<sup>65</sup> IDB, February 2021, **Vision 2025**

<sup>66</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**

<sup>67</sup> AfDB, **AfDB's strategy for 2013–2022**, accessed November 2023





- > For CAF, reference was found to an “Institutional strategy 2022–2026” which incorporates “climate relevant issues”<sup>68</sup>, in the context of the bank’s Paris alignment pledge, but this is not publicly available.

Five of the six MDBs analysed have also published dedicated climate change strategies.

- > AfDB,<sup>69</sup> AIIB,<sup>70</sup> and IDB<sup>71</sup> each have a climate change action plan, while ADB has a “climate change operational framework”,<sup>72</sup> and BOAD has a “climate policy”.<sup>73</sup>
- > While exact content varies, these documents (which typically cover a multi-year period) broadly set out the strategic priorities for mainstreaming climate change considerations across Bank operations.
- > CAF does not appear to have a publicly available dedicated climate strategy.

#### NDBs

NDBs also generally integrate climate change considerations in their core strategic documents, although to varying degrees.

- > NDB strategies that reference the goals of the Paris Agreement typically do so in the context of contributing to the fulfilment of their country’s NDC (e.g., BNDES and DBSA).
- > In some cases, this commitment has explicitly been made, without it being clearly integrated in the overall strategy (e.g., PT SMI, CDG and Bancóldex).<sup>74</sup>
- > Information is limited on how the CDB views its commitment to align with the Paris Agreement as a member of the IDFC.

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<sup>68</sup> CAF, July 2023, **CAF operations will be aligned with the Paris Agreement**

<sup>69</sup> AfDB, March 2023, **Climate change and green growth strategic framework: Operationalising Africa’s voice – Action plan 2021–2025**

<sup>70</sup> AIIB, September 2023, **Climate action plan**

<sup>71</sup> IDB, March 2021, **Inter-American Development Bank Group climate change action plan 2021–2025**

<sup>72</sup> ADB, August 2017, **Climate change operational framework 2017–2030: Enhanced actions for low greenhouse gas emissions and climate-resilient development**

<sup>73</sup> BOAD, February 2023, **West African Development Bank climate policy**

<sup>74</sup> For PT SMI and Bancóldex, this reflects the absence of any publicly available core strategy document, making it impossible to substantiate to what extent the Paris Agreement is integrated, despite reference elsewhere to each NDB’s commitment to supporting its country’s NDC.



Dedicated climate change strategies appear to be less common among NDBs.

- > BNDES, CDB and PT SMI seem to have developed strategies to guide action on climate change – although this is only specifically dedicated to climate change in the case of BNDES.<sup>75</sup>
- > BNDES also utilises a Green Taxonomy to align investments. Additionally, it has developed a “Corporate social responsibility action plan”,<sup>76</sup> spanning more broadly across SDGs.
- > DBSA relies on a suite of ten ESG and sustainability standards policies across its operations, which combine to form its environmental and social management framework (ESMF),<sup>77</sup> rather than having a dedicated guiding strategic document.
- > CDG is currently developing a “Sustainable Development Charter”.
- > Bancóldex refers to an institutional “Sustainability strategy 2030”, but it was not possible to locate this document publicly.

#### Comparing progress on Paris alignment of institutional strategy and governance

Across both MDBs and NDBs, integration of the Paris Agreement into core strategic documents is not guaranteed. For NDBs, there is a tendency to anchor any reference to the Paris Agreement to their country’s NDC, in line with their single shareholder structure. Among the 12 PDBs examined, dedicated strategic documents focused on climate change were more prevalent among MDBs than NDBs. Approaches differ across NDBs; some have climate change strategies, or comparable documents with broadened scope, while others rely on a combination of frameworks, standards, and policies across operations, covering both environmental and social considerations.

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<sup>75</sup> BNDES, Climate and development – The BNDES’s contribution to a just transition, accessed November 2023; CDB, December 2021, **The China Development Bank (CDB) has issued an action plan to support carbon peaking and carbon neutrality**; PT SMI has a Sustainable Finance Action Plan (RAKB), PT SMI, **2021 sustainability report**.

<sup>76</sup> BNDES, **Corporate social responsibility action plan – BNDES 2018–2020**

<sup>77</sup> DBSA, February 2023, **DBSA corporate plan 2023/24–2025/26**



## Adaptation and resilience

### Key takeaways

- > While all analysed MDBs, aside from AIIB, have clear goals to increase adaptation finance, their commitments vary greatly in specificity. Of the six analysed, two have quantitative targets, and a further two have identified adaptation as a priority, without a quantified target. Climate risk screening is clearly undertaken by the majority of MDBs.
- > NDBs address adaptation finance goals in the context of long-term country goals and/or NDCs, with any prioritisation tied to the context of country-level strategies. Publicly available information on climate risk screening tends to be lacking in concrete detail, while the degree to which processes specific to climate risks are integrated into broader environmental and social safeguard processes is variable.
- > The lack of clarity in defining adaptation finance and uniformity among the MDBs in creating adaptation goals may impact NDBs' ability to create adaptation-specific strategies.

### MDBs

Commitments related to the prioritisation of climate adaptation and resilience vary across MDBs.

- > AfDB is the only MDB to have a greater proportion of its annual climate finance approvals tagged as adaptation than mitigation, while ADB has the largest gross adaptation finance commitment (constituting 34% of its goal for USD 100 billion in climate finance by 2030).
- > IDB has eschewed a quantitative target but has explicitly made it a priority to increase adaptation financing and to enhance climate resilience in Latin America.<sup>78</sup>
- > CAF has similarly framed its contribution to adaptation in terms of relevant priorities, such as early risk assessment, loss and damage evaluation mechanisms, and climate change response and recovery capabilities.
- > BOAD estimates it will dedicate 26.2% of its climate finance for the period 2021–2025 to adaptation. However, the bank does not make clear to what

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<sup>78</sup> IDB, November 2022, **IDB and IDB Invest provided \$26 billion in climate financing over five years**



extent this figure reflects active prioritisation as this figure is presented as a forecast rather than a target.

- > AIIB has not explicitly set any substantive goal to increase the proportion of adaptation financing committed.

Furthermore, five of the six MDBs analysed have developed and published climate risk screening processes which apply to their operations, with typically comprehensive coverage at the project level. In the case of CAF, information regarding project level climate risk screening procedures is not publicly available.

- > IDB Group’s environmental and social policy framework (ESPF)<sup>79</sup> and disaster and climate change risk assessment methodology<sup>80</sup> lay out the bank’s extensive guidelines and procedures to manage climate, environmental and social risks, including requirements for borrowers. Using these policies, IDB Group has committed to be assessing climate risk in 100% of its “moderate” and “high” risk operations across its portfolio by 2023.
- > For AfDB, climate risk screening is mandated across “all projects, activities, and other initiatives” by the bank’s integrated safeguards system (ISS).<sup>81</sup>
- > Similarly, all ADB projects are screened for climate risks. Projects identified to have a medium or high risk undergo further screening through dedicated tools such as AWARE for Projects.<sup>82</sup>
- > AIIB’s recently published Paris alignment methodology requires the climate risk and vulnerability context of projects to be established.<sup>83</sup> Projects deemed medium to high risk must undergo a detailed climate risk and vulnerability assessment.
- > BOAD’s 2023 Climate Policy strategy establishes the requirement for climate risk screening requirements for all projects but does not provide extensive detail.<sup>84</sup> However, the Bank is currently strengthening its risk assessment procedures further based on technical cooperation with the French Development Agency (AFD).

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<sup>79</sup> IDB, October 2021, **Environmental and social policy framework**

<sup>80</sup> IDB, December 2019, **Disaster and climate change risk assessment methodology for IDB projects: A technical reference document for IDB project teams**

<sup>81</sup> AfDB, May 2023, **Integrated safeguard system – April 2023**

<sup>82</sup> ADB, November 2014, **Climate risk management in ADB projects**

<sup>83</sup> AIIB, **AIIB and Paris alignment** (webpage), accessed November 2023

<sup>84</sup> BOAD, February 2023, **West African Development Bank climate policy**



### NDBs

The NDBs analysed did not tend to have any clear, independent explicit prioritisation relating to adaptation finance originating from the institutions themselves.

- > However, PT SMI has committed to assisting Indonesia to realise the goals laid out in the country's long term strategy for low carbon and climate resilience.<sup>85</sup>
- > Similarly, CDG inscribes its actions<sup>86</sup> within Morocco's NDC<sup>87</sup> and its national sustainable development strategy,<sup>88</sup> in which adaptation is established as a clear priority.

Among the NDBs analysed, evidence suggests that climate risk screening takes place, although to varying degrees and with public-facing information tending to be lacking in concrete detail.

- > PT SMI has implemented its ESS management,<sup>89</sup> which identifies climate, social, and disaster risks, and mandates debtors to develop steps needed to mitigate such risks. The ESS guidelines are a minimum standard and cover all financing activities by PT SMI at the corporate and/or project level.<sup>90</sup>
- > DBSA currently assesses environmental considerations for each proposed investment project, identifying key issues at the project design stage, screening and categorising project risk levels, linking risks and required mitigation measures to the approval process, and monitoring indicators throughout delivery.
- > Bancóldex is currently working on updating and strengthening its environmental and social risk management system (SARAS)<sup>91</sup> which identifies, evaluates, mitigates and monitors environmental risk throughout the credit cycle of financed operations. However, it is not clear how climate risk specifically features in this framework.

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<sup>85</sup> Indonesian government, July 2021, **Long-term strategy for low carbon and climate resilience 2050**

<sup>86</sup> CDG, **Rapport d'activité 2021**

<sup>87</sup> Moroccan government, June 2021, **CDN-Maroc – Contribution déterminée au niveau national - actualisée**

<sup>88</sup> Moroccan government, **Stratégie nationale de développement durable** (webpage), accessed November 2023

<sup>89</sup> PT SMI, **Environmental & social safeguard** (webpage), accessed November 2023

<sup>90</sup> PT SMI, October 2020, **Environmental and sosial safeguard guidelines**

<sup>91</sup> Bancóldex, **Gobierno corporativo** (webpage), accessed November 2023



- > Similarly, BNDES's socioenvironmental policy sets out guidelines for project-level social and environmental risk screening throughout the project cycle.<sup>92</sup> However, it does not specifically refer to screening for climate risk, or for relevant mitigation, adaptation, and resilience measures.
- > CDG has committed to integrating risks linked to climate change and the environment into the Group risk management system,<sup>93</sup> but details regarding implementation are not forthcoming.
- > There is no public evidence to suggest that CDB integrates climate risks into its lending activities or project risk analysis.

### Comparing progress on Paris alignment of adaptation and resilience

In terms of patterns emerging from this data, the MDBs have tended to set specific targets and make independent commitments to prioritise adaptation and resilience financing. Furthermore, there is a consistent trend amongst MDBs to apply climate risk screening measures across their full scope of operations. The NDBs examined do in some cases prioritise adaptation and resilience financing to support country-level strategies, although evidence of this was not consistently found. The setting of independent adaptation finance targets or commitments does not seem to be a feature across NDBs. The application (and publicly available details) of climate risk screening measures appeared to be less consistent among the NDBs examined, with some instances of extensive procedures in place, and others with little to no available detailed information.

### Energy policy

#### Key takeaways

- > AfDB, ADB, AIIB, and IDB each have a dedicated energy sector policy, although these vary in climate-alignment and specificity.
- > The same four MDBs all have coal exclusion policies, as well as varying levels of oil and gas exclusion.
- > While no NDBs have a clear energy-specific policy, many are involved in just transition efforts. Similarly, while only BNDES has a clear-cut exclusion policy, many of the NDBs evaluate whether the fossil fuel financing is aligned with NDCs.

<sup>92</sup> BNDES, **Socioenvironmental policy** (webpage), accessed November 2023

<sup>93</sup> CDG, **Pour un modèle de financement durable** (webpage), accessed November 2023



- > The greater tendency of MDBs than NDBs to institutionalise energy sector policy in a formal strategy, as well as commit to exclusion policies, may be reflective of the distinct political economy context faced by NDBs in terms of sensitivity to potentially changeable national policy and priorities.

### MDBs

Across the MDBs analysed, four of six had dedicated energy sector policies. However, these vary in the degree to which they integrate climate change considerations.

- > In 2022, the AIIB released an updated energy sector strategy which makes clear strides in supporting the transition to sustainable energy, and incorporates adaptation and resilience considerations for energy infrastructure planning.<sup>94</sup>
- > ADB’s energy sector policy similarly makes frequent reference to supporting a “low-carbon transition”, as well as including building climate resilience as a key principle.<sup>95</sup>
- > IDB’s 2018 energy sector framework has a dedicated “energy sustainability” section, as well as referencing both mitigation and adaptation throughout (although with notably more concrete discussion of the former).<sup>96</sup>
- > AfDB is still in the process of updating its energy sector policy issued in 2011, which makes limited reference to climate change.<sup>97</sup> It has however published its parallel New Deal on Energy for Africa 2016–2025 strategy,<sup>98</sup> promoting clean and sustainable energy for climate mitigation, and committing to sector-wide climate risk screening, as well as actively building resilience.
- > Neither CAF nor BOAD appear to have a public energy sector strategy document. Commitments to supporting the transition through promoting renewable energy development and reducing GHG emissions from the energy sector feature across other Bank publications in both cases, but without an accompanying dedicated policy document to guide investment.

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<sup>94</sup> AIIB, November 2022, **Energy sector strategy: Sustainable energy for tomorrow**

<sup>95</sup> ADB, September 2021, **Energy policy – Supporting low-carbon transition in Asia and the Pacific**

<sup>96</sup> IDB, October 2018, **Energy sector framework document**

<sup>97</sup> AfDB, **Energy sector policy**

<sup>98</sup> AfDB, **The Bank Group’s strategy for the New Deal on Energy for Africa 2016–2025**





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In terms of financing for fossil fuels, the scope of exclusions varies across the MDBs considered.

- > Coal is excluded from financing by AfDB, ADB, AIIB and IDB. Oil and gas exclusion policies are less uniform.
- > IDB and ADB exclude upstream oil and gas but permit support for midstream and downstream in “exceptional circumstances”.
- > AIIB differs from this position by also including upstream oil sector investments as permissible under “exceptional circumstances”.
- > AfDB specifically excludes only exploration for upstream oil and gas and permits midstream and downstream activities where a long-term strategy is in place.
- > Neither CAF nor BOAD appear to have any explicit exclusions covering fossil fuel financing.<sup>99</sup>

#### NDBs

For the NDBs analysed, no dedicated energy sector policies were identified. Despite this, several of these institutions are active in the energy transition policy and financing space.

- > BNDES has set out the relationship between climate, development, and energy policy in a position paper detailing its contribution to a just transition.<sup>100</sup>
- > PT SMI has been appointed as country platform manager for the ADB’s Energy Transition Mechanism,<sup>101</sup> to provide finance for energy transition and low-carbon economic development.
- > DBSA has committed to “aggressively growing clean energy assets” as part of a just transition and decarbonisation pathway focusing on renewable energy infrastructure development.

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<sup>99</sup> Despite this, BOAD does recognise it is transitioning to promote cleaner energy, and is actively exploring “environmentally friendly” energy opportunities.

<sup>100</sup> BNDES, **Climate and development – The BNDES’s contribution to a just transition**

<sup>101</sup> PT SMI, July 2022, **Becoming an Energy Transition Country Platform, here is PT SMI’s preparation**

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- > CDG announced at COP22 the launch of an Energy Service Company to support the energy consumption reduction target of Morocco's NDC.<sup>102</sup>
  - > Bancóldex financed over 300 projects related to energy efficiency and renewable energy generation in the period 2017–2022.
  - > In the case of CDB, there is little information available regarding how the bank is supporting the energy transition, with oil and gas infrastructure being set out as a strategic priority.<sup>103</sup>

Moreover, the NDBs analysed do not, for the most part, have explicit exclusion policies in place regarding the financing of fossil fuels.

- > However, BNDES does exclude power generation exclusively through either coal or oil from its financing, as well as the production of mineral coal for use in thermoelectric plants.
- > Moreover, DBSA will “not support new fossil fuel investments which are not part of a clear and unambiguous just transition plan to a decarbonised future”.<sup>104</sup>

Relevantly, a 2021 statement by the IDFC<sup>105</sup> (of which all six NDBs analysed are members) included a commitment to “end international public finance for new unabated coal power generation”. It is not clear to what extent this commitment has been operationalised by the institutions analysed.

### Comparing progress on Paris alignment of energy policy

Energy policy is far from homogenous among either MDBs or NDBs, let alone across these two types of institutions. However, according to the sample of 12 institutions analysed, it is more common for MDBs to have developed and published dedicated energy sector policy documents, and to comprehensively institutionalise their energy strategy in this way. Exclusions on fossil fuel financing also appear to be more common for MDBs (although with variation) than NDBs.

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<sup>102</sup> CDG, November 2016, **COP22: L'efficacité énergétique, pilier des stratégies de développement durable**. Morocco's NDC specifies a 15% reduction in energy consumption by 2030. Notably, very little information is available on the activities of the Energy Service Company since this announcement.

<sup>103</sup> CDB, **Strategic priorities** (webpage), accessed November 2023

<sup>104</sup> DBSA, **Sustainability review 2023**

<sup>105</sup> IDFC, November 2021, **IDFC reports total financing of US\$ 1 trillion of green finance since COP21 with the potential to mobilize up to US\$ 1.3 trillion by 2025 and commits to end international public finance for new unabated coal power generation**



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## CHAPTER 3

# FACTORS INFLUENCING PARIS ALIGNMENT AND CLIMATE FINANCE FLOWS BETWEEN MDBS AND NDBS

Through examining climate finance flows between MDBs and NDBs, as well as the state of Paris alignment across both types of PDB, it becomes clear that both flows (together with the underlying interbank relationships) and degrees of progress are varied. While there are operational challenges specifically impacting MDB–NDB on-lending relationships, there are also structural elements to these relationships which are also relevant considerations for climate mainstreaming.

Based on extensive engagement with MDBs and NDBs on Paris alignment progress, three particularly important factors emerge from the broader set of factors identified in Chapter 1 as having critical, structural impacts by virtue of their simultaneous relevance to both on-lending relationships, and progress on Paris alignment. These are: (1) political economy and governance, (2) mandates; and (3) institutional capacity and expertise.

### Political economy and governance

The governance and political economy of PDBs vary across contexts. These differences can be attributed to factors such as shareholder structures, exposure to national-level political dynamics and geopolitical considerations, and governance procedures. These factors jointly contribute to the level of Paris alignment and participation in climate on-lending for both MDBs and NDBs.

NDBs are defined by their single shareholder structures and associations with the relevant national government.<sup>106</sup> Accordingly, political economy influences have been shown to significantly constrain lending decisions in NDBs as a result of this direct link to national-political dynamics, with these institutions prone to

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<sup>106</sup> The level of government involvement in these institutions, however, can vary by institution and geography.



dependence on the policy of their sole shareholder.<sup>107</sup> As such, NDBs in countries where climate has become a political issue may find both alignment activities and on-lending participation to be somewhat dependent upon political and government priorities. The structural dynamics of the national economy are another significant component of the political economy context impacting NDBs. For instance, factors such as the nature and economic importance of the energy sector, as well as the degree of economic diversification, can exert substantial influence on the lending preferences of these institutions.

In contrast, MDBs are governed according to a multi-shareholder system, where larger shareholders typically hold larger voting shares, while smaller shareholders often form constituencies for representation at the board level. This structure introduces a different set of dynamics relevant for decision-making and governance.<sup>108</sup> As such, it requires heightened awareness of potentially competing geopolitical interests and the political economy within and between constituencies within a given MDB, as opposed to dependence on a single shareholder faced by NDBs. This can, in some instances, create decision-making bottlenecks that hinder alignment and climate on-lending activities.

A core avenue through which these influencing factors translate into practical implications is through determining the risk appetite of a given PDB. For NDBs, their close ties to the national fiscal policy context can have direct repercussions on their risk appetite. Conversely, MDB countercyclical mandates could lead to a higher risk appetite, enabled by their ability to spread out risk in light of their diversified portfolios and global perspective. In practice MDBs have proved reluctant to take on substantial levels of risk when making investments, due in part to shareholder focus on maintaining impeccable credit ratings and in part to a conservative culture within the organisations. These issues have increasingly been subject to debate as part of the G20 Capital Adequacy Framework review.<sup>109</sup>

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<sup>107</sup> ACET and ODI, October 2022, **Challenges and Changes: The Political Economy of National Development Banks in Africa**

<sup>108</sup> Humphrey, Chris, December 2022, “**Who’s in charge? Governance across PDBs**”, in *Financing the Future: Multilateral Development Banks in the Changing World Order of the 21<sup>st</sup> Century*, Oxford Academic.

<sup>109</sup> G20 Expert Panel, 2022, **Boosting MDBs’ investing capacity – An independent review of multilateral development banks’ capital adequacy**



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## Mandates of PDBs

Mandate refers to the fundamental purpose that a PDB has been tasked with, effectively setting the scope for its operations. The mandate to deliver on public policy objectives and to take more risks associated with political, economic and locational aspects sets PDBs apart from commercial banks.<sup>110</sup> While there is often overlap, different PDBs can and do have specific mandates. At a high level, PDBs can be categorised as either having a “flexible mandate” for supporting social, economic and environmental development, or a “single mandate”.<sup>111</sup>

The largest MDBs tend to have fairly consistent, broad-ranging, “flexible” mandates, defined in terms of overarching regional or global development goals.<sup>112</sup> NDB mandates vary more considerably but are typically oriented around implementing national-level development strategies. This can entail mandates having specific sectoral and/or client focus, requiring an institution to specialise in supporting projects within a particular sector and/or to cater to certain specific clients (e.g., national governments, MSMEs, municipalities, smallholder farmers etc.) within or across sector(s).

Mandates are significant for climate on-lending and Paris alignment progress across MDBs and NDBs in two key ways. Firstly, variation in mandates (and associated operating models) can contribute to information asymmetry limiting the necessary awareness between MDBs and NDBs regarding the scope of financing, priorities, and clientele of prospective partner institutions. This is consequential due to the potential to disincentivise on-lending arrangements if mandates are not able to be perceived as sufficiently aligned. The financial tracking in Chapter 1 found that there were 14 transactions from MDBs to NDBs with a FLEX mandate – the most transactions found for any of NDB mandates covered.<sup>113</sup>

Secondly, variability in mandates highlights the possibility for NDBs to be required to provide support for specific clients and/or high-emitting sectors,<sup>114</sup> regardless of whether they would ordinarily qualify for finance on the basis of

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<sup>110</sup> Eurodad, April 2017, **Public Development Banks: towards a better model**

<sup>111</sup> AFD and INSE, October 2021, **FICS 2021: A new database of the world’s 527 public development banks and financing institutions unveiled.**

<sup>112</sup> ODI, April 2018, **A guide to multilateral development banks**

<sup>113</sup> See Table 4 for overview of different mandates.

<sup>114</sup> Lazzarini, S. G. et al., February 2015, **What do state-owned development banks do? Evidence from BNDES, 2002–09**, *World Development*, vol. 66, pp. 237–253



compatibility with the goals of the Paris Agreement. As a result, NDBs catering for harder-to-abate sectors, such as the agricultural and land use sector, face unique challenges in their Paris alignment process as they are required to continue providing sectoral finance in these sectors. The typically reduced flexibility of NDB mandates increases the importance of this dynamic for NDBs.

## Institutional capacity and expertise

PDBs vary significantly in scale and internal capacity. The largest PDBs have over a trillion USD in total assets, while the smallest have total assets in the single digit millions USD.<sup>115</sup> While financial scale does not necessarily correspond directly to institutional expertise, institutions with greater staffing capacity tend to have dedicated technical expertise on climate finance. This enables the institutionalisation of knowledge-building processes, thus leading to the development and adoption of the methodologies and policies required.

Furthermore, integrating assessments of Paris alignment into PDB project-cycles can require significant changes to bureaucratic processes, which are already typically complex. This can be particularly difficult for NDBs in EMDE contexts, given the need to balance sufficiently stringent processes and standards while maintaining access to finance, typically without the support of a comparably developed national regulatory environment. However, there is a potential correlation between having the internal expertise at NDBs to create and implement a strong climate alignment policy and increased climate finance flows. This is evidenced in Chapter 2: “Paris alignment” in the case of BNDES, PT SMI and DBSA, which are front-runners in the NDB space in terms of their Paris alignment processes. Simultaneously, these banks, along with the NDB Infrastructure Development Company Ltd, have received the majority of climate finance tracked from MDBs. Except the Infrastructure Development Company, they all received funding from multiple MDBs. In light of this, it can be inferred that their internal capacities related to climate change as well as the institutional knowledge in this area resulted in financial benefits for these banks as they enabled an effective collaboration with MDBs in the form of climate-related on-lending programs.

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<sup>115</sup> AFD and INSE, October 2021, **FICS 2021: A new database of the world’s 527 public development banks and financing institutions unveiled**



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## CHAPTER 4

# RECOMMENDATIONS

This report was written in the context of widespread international calls for MDB reforms, which include an objective of improving Paris alignment and climate finance flows. Based on our research findings and suggestions from interviewed stakeholders, we have identified recommendations to address the challenges to greater MDB–NDB cooperation on climate action. These aim to mitigate the potentially counterproductive effects of the three factors identified in Chapter 3 (political economy and governance; mandates; and institutional capacity and expertise).

Identifying and orienting financing arrangements to account for these factors will be valuable not only to improve climate on-lending, but also to facilitate progress on climate mainstreaming across institutions. Achieving these goals could help to unlock transformative coordination between MDBs and NDBs, and represents an important step towards realising the vision of a joined-up PDB ecosystem that delivers climate safety.

The recommendations are structured as follows. First, we present a series of interim actions to improve cooperation, in order to ultimately facilitate the more substantial changes needed to address political economy and governance challenges. Second, we identify clear steps to help resolve information and priority asymmetry resulting from differing mandates. Third, we have proposed ways to improve institutional capacity and expertise.

### Improving cooperation

**As an interim step to navigating political economy and governance pitfalls, MDBs should optimise their operating models** for delivering climate finance through NDBs via on-lending. This can help to improve the scale, durability, and effectiveness of MDB–NDB collaboration. Steps to achieving this include:

- > **MDBs and NDBs actively engaging third parties, such as governments and multilateral climate funds, to bring concessional support into joint MDB–NDB financing arrangements.** This can mitigate risks and increase institutional appetite for partnerships. For example, by reducing the cost of





capital to make lending more affordable and attractive, thus increasing climate finance flows.

- > **MDBs should support NDBs’ development of sectoral pipelines with clear climate criteria**, using a country platform approach as recommended in the MDB reform agenda. The current lack of sector-specific climate finance on-lending makes the climate impacts of such financing uncertain. MDBs could help address this by increasing project origination and preparation capacity, either through staffing or knowledge-building support, as well as by establishing climate eligibility criteria for lines of credit.
- > **Additionally, any resources flowing from MDBs to NDBs for further lending to private sector partners in high-emitting or hard-to-abate sectors should require a counterparty approach assessment**, instead of a transaction-based one. This can help to foster transition plans and allow climate finance to be tracked to its final point of distribution, and to ensure funds are spent as intended.<sup>116</sup>
- > **MDBs should promote the development of local currency instruments.** Local macroeconomic contexts have significant impacts on NDB operations and their ability to effectively use climate finance. Any MDBs not currently doing so should work to provide more local currency loans, or other financial mechanisms to help address sovereign debt and the rising cost of capital in EMDEs.
- > **MDBs should promote greater standardisation of approval processes.** As highlighted by ongoing MDB reform efforts, greater standardisation, within and across MDBs, of loan application and approval processes can work to lower reporting burdens for NDBs.

## Resolving mandate asymmetry

**At an institutional level, mandates** for climate action should be clarified for both MDBs and NDBs where possible and leveraged as a framework for collaboration and development of institutional capacity.

- > **Both MDBs and NDBs should fundamentally reconsider how their institutional mandates enable an effective, and fitting, contribution to the response to the global existential challenge of climate change.** For MDBs, this could learn from the “evolution” process underway at the World Bank

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<sup>116</sup> I4CE and New Climate Institute, March 2023, [Supporting financial institutions in developing countries in their alignment journey with climate goals](#)



Group, to integrate climate change in their mandates. For NDBs, this could involve ensuring stronger connections to and more intentional mandates in supporting the climate commitments of their host countries in close collaboration with the relevant ministries.

- > **Further research is required to determine effective strategies for promoting engagement between NDBs, national governments, and national agencies to incorporate climate objectives into existing mandates.** Addressing the information asymmetry issues that are created by differences in mandates requires, in principle, easier-to-implement measures. However, managing the perceived incompatibility between certain institutional mandates and climate goals is a more complex challenge. Further research in this vein is needed to enable progress on the alignment of financing with the Paris Agreement in a manner that is compatible with existing clients and sectors.

## Improving institutional capacity and expertise

**MDBs and NDBs should share institutional capacity and expertise** to enhance collaboration on advancing institutional climate mainstreaming, scaling intermediated financing structures, and filling data gaps. This would help to remedy the current lack of shared and detailed understanding between MDBs and NDBs on how mandates, local context, and risk appetite impact climate-related finance. Increasing the level of climate-related capacity and expertise within PDBs is also critical to effectively implement the interim operating model recommendations listed above. Specific steps include those listed below.

### Convening

1. **Leveraging Finance in Common as an MDB–NDB working group to create a platform for exchanging best practices in constructing joint MDB–NDB climate finance programs**, as well as collectively addressing existing challenges impacting engagement. This working group can leverage linkages and networks from existing multi-institutional coalitions such as the IDFC and FiCS to bring together a set of experienced and representative MDBs and NDBs.
2. **As part of this, MDBs should pool their efforts to build capacity at a regional level to address information asymmetries**, in collaboration with partners like the World Federation of Development Finance Institutions, IDFC, EDFI, and other similar groups.



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### Knowledge sharing

1. **MDBs should actively collaborate to disseminate knowledge and lessons learnt from their internal capacity-building experience** on climate mainstreaming and Paris alignment in their engagements with NDBs, as well as with other financial institutions throughout the development finance pyramid.<sup>117</sup> This transfer of knowledge should be accompanied by relevant concrete solutions to be integrated into the relevant systems of NDBs. This can be part of TA packages to support capacity and knowledge building within NDBs.
2. **Efforts should include a public, searchable database of joint financial engagements disaggregated at the project-level, tracking when NDBs participate as on-lending intermediaries or as co-financiers.** Such a database should disclose the volume and purpose of investments. This is a key requirement to improve measurement of both climate finance and MDB–NDB interactions as well as increased accountability. This is particularly relevant for cases with on-lending approved by MDBs under a transaction-based approach, instead of a counterparty approach. This could complement current MDB reform efforts to make the GEMS database publicly available.

### Technical assistance

1. **At an individual level, all MDBs should introduce a phased TA approach,** working with intermediary lenders to develop a Paris alignment process. This will enable both entities to establish a time-specific roadmap including milestones that NDBs must comply with to keep receiving funding and/or expand partnerships.<sup>118</sup> This will function as an incentive to guarantee that these entities are also transitioning their operations to climate-friendly practices.
2. **To increase resources for this effort, MDBs should coordinate to make public a clear database of available TA programs and support,** which would be deeply beneficial to NDBs that are seeking to progress on climate alignment but lack capacity. There is a wide variety of TA programs available for NDBs and developing economies, but these are often difficult for NDBs to locate and access.

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<sup>117</sup> I4CE and New Climate Institute, March 2023, **Supporting financial institutions in developing countries in their alignment journey with climate goals**

<sup>118</sup> Ibid



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## ANNEX 1

# DATA DESCRIPTION

The primary data source used to analyse MDB–NDB climate finance engagements is a dataset of over 15,000 MDB project-level financing transactions from the period 2015–2022, scraped from MDB project web portals.<sup>119</sup> The sample of MDBs included in this dataset are the 10 MDBs which contribute to the Joint Report on MDB Climate Finance.<sup>120</sup> The general structure of this dataset is formatted to resemble the array of data fields included in the Global Landscape of Climate Finance.<sup>121</sup>

In order to identify MDB–NDB partnerships – either as source and recipient, or as co-investors – project names, descriptions and recipient information within project-level transactions data are matched to a list of NDB institution titles and acronyms. This list is generated from the Finance in Common (FiC) database of PDBs and development finance institutions, filtered to only include “national” institutions.<sup>122</sup> In addition, project-level transactions data is matched to a set of generic NDB key words (e.g. national development fund) to capture instances that might fall outside of the FiC

After the initial dataset of joint MDB–NDB projects is produced, it is manually reviewed to ensure that MDB–NDB linkages are correctly identified, and also to enter information describing the nature of the transaction (i.e., MDB-to-NDB lending or TA vs. co-investment). Overall, this process yields a total of 42 joint MDB–NDB climate projects in low- and middle-income countries, and 16 joint MDB–NDB projects in HICs.

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<sup>119</sup> This dataset was originally collected for the Cities Climate Finance Leadership Alliance (CCFLA) forthcoming report on MDB Urban Climate Finance in Low- and Middle-Income Economies. See the methodology section of the CCFLA report for more detail on how the dataset was collected and processed.

<sup>120</sup> These are African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), Islamic Development Bank (IsDB), New Development Bank (NDB), and the World Bank Group (WBG). Due to web scraping difficulty, International Finance Corporation (IFC) financing flows are not included in WBG data.

<sup>121</sup> CPI, November 2023, **Global Landscape of Climate Finance 2023**

<sup>122</sup> Peking University INSE & AFD, **Public development banks and development financing institutions database** (website), accessed June 2023



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Primary limitations are: (1) this data collection process may not capture the full extent of MDB-to-NDB financing activities, as some (e.g., credit lines) may not be disclosed via public project web portals; (2) the transaction amounts recorded by this dataset reflect the entire transaction amount of projects that include some particular climate component, not the climate-specific financing amount (i.e., direct financing for mitigation and/or adaptation), due to the fact that climate-specific financing is not consistently reported at the project level.

## Abbreviations of institutions in dataset

### **Multilateral development banks (MDBs)**

- > New Development Bank
- > Asian Development Bank (ADB)
- > European Investment Bank (EIB)
- > World Bank (WB)
- > European Bank for Reconstruction and Development (EBRD)
- > Inter-American Development Bank (IDB)

### **National development banks (NDBs) (in decreasing order of climate flows)**

- > The Brazilian Development Bank (BNDES)
- > Infrastructure Development Company Limited of Mongolia (IDCOL)
- > PT Sarana Multi Infrastruktur (PT SMI)
- > Development Bank of Southern Africa (DBSA)
- > Bank of Provinces of Turkey (İlbank)
- > The Development Bank of Peru (COFIDE)
- > Development Bank of North Macedonia (DBNM)
- > Industrial Development Corporation of South Africa Limited (IDC)
- > KazAgro Finance (KazAgro)
- > Local Water Utilities Administration of the Philippines
- > The State Export–Import Bank of Ukraine (Ukrexim)
- > Development Bank of El Salvador (Bandesal)



- > Municipal Development Fund of Georgia
- > Cities and Villages Development Bank of Jordan (CVDB)
- > Albanian Development Fund (ADF)
- > Nacional Financiera (NAFIN)



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## ANNEX 2

# PDB APPROACHES TO AND PROGRESS ON PARIS ALIGNMENT

This section presents the results of the extended research used to study each of the selected 12 PDBs with regards to the different metrics of the abbreviated E3G Public Banks Climate Tracker Matrix, namely: (1) direct finance; (2) indirect finance; (3) institutional strategy and governance; (4) adaptation and resilience; and (5) energy policy. Each metric includes a brief explanation of its focus followed by the results of all the relevant institutions.

### Direct finance

Assessment focus:

- > The current level and share of climate finance (or alternative denominations of “green” or “sustainable” finance that covers financing for climate goals).
- > The definitions and reporting procedures in place relating to climate finance (both adaptation and mitigation).

#### **African Development Bank (AfDB)**

AfDB climate finance as a share of total approvals increased from 34% in 2020 to 41% in 2021 and 42% in 2022.<sup>123</sup> Of total climate finance in 2022, 64% was committed to adaptation, with the remaining 36% dedicated to mitigation. As part of its climate change action plan (2016–2020),<sup>124</sup> AfDB established a climate finance target of 40% of approvals being categorised as climate finance. For 2020–2025, the AfDB has committed to maintaining this 40% annual threshold, mobilising USD 25 billion in climate finance, and to achieve parity between adaptation and mitigation (retaining priority for the former).<sup>125</sup> In terms of

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<sup>123</sup> AfDB, May 2023, **Annual report 2022**

<sup>124</sup> AfDB, **The African Development Bank Group’s second climate change action plan (2016–2020)**

<sup>125</sup> AfDB, March 2022, **Climate and green growth strategic framework: Projecting Africa’s voice – Strategy 2021–2030**





accounting, AfDB utilises the common principles for climate mitigation<sup>126</sup> and adaptation<sup>127</sup> finance.

### **Asian Development Bank (ADB)**

In 2022, climate change projects made up 27.1% of ADB's total portfolio, a 15% increase from 2021.<sup>128</sup> The Bank reports this updated portfolio figure annually along with gross annual approvals (USD 7,110 million in 2022: USD 6,723 million from its own resources and USD 387 million mobilised from external resources), rather than the percentage of annual commitments (although this figure is available as part of the annual joint MDB report on climate finance). Of the total commitment in 2022, 60.2% went towards mitigation, and 39.8% towards adaptation. As part of "Strategy 2030",<sup>129</sup> ADB has committed to elevating its cumulative climate finance ambition to USD 100 billion and ensuring that 75% (on a 3-year rolling average, including sovereign and non-sovereign operations) of its committed operations will support climate causes by 2030. In terms of accounting, ADB utilises the common principles for climate mitigation and adaptation finance.

### **Asian Infrastructure and Investment Bank (AIIB)**

AIIB has already hit its "50% in climate financing by 2025" target, with 56% of overall approved financing going toward climate finance in 2022, amounting to USD 2.39 billion.<sup>130</sup> Of this amount, 81% is dedicated to climate mitigation projects, and 19% towards climate adaptation projects. Compared to 2021, there is a 3% increase in climate mitigation projects, and 3% decrease in adaptation projects. However, the recently published 2022 joint report on MDB financing shows that, when including projects financed through the Bank's COVID-19 Crisis Recovery Facility, climate finance currently stands at 39% of total AIIB operations.<sup>131</sup>

### **West African Development Bank (BOAD)**

BOAD climate finance as a share of approvals increased from 16%,<sup>132</sup> amounting to USD 120 million (XOF 74.4 billion) in 2021, to 19.7%, amounting to USD 173

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<sup>126</sup> Joint MDB Group & IDFC, October 2021, [Common principles for climate mitigation finance tracking](#)

<sup>127</sup> Joint MDB Group, November 2022, [Joint methodology for tracking climate change adaptation finance](#), November 2022

<sup>128</sup> ADB, [2022 Annual portfolio performance report](#)

<sup>129</sup> ADB, July 2018, [Strategy 2030](#)

<sup>130</sup> AIIB, 2023, [AIIB Sustainable Development Bonds impact report 2022](#)

<sup>131</sup> Joint MDB Group, October 2023, [2022 joint report on multilateral development banks' climate finance](#)

<sup>132</sup> BOAD, [Rapport annuel 2021](#)



million (XOF 107.64 billion) in 2022.<sup>133</sup> As part of its 2021–2025 strategic plan,<sup>134</sup> the Bank has set a formal target for 25% of approvals being categorised as climate finance by 2025. All projects financed by BOAD will be monitored for climate-related aspects using the common principles for monitoring climate change financing defined by the IDFC.<sup>135</sup>

### **Development Bank of Latin America and the Caribbean (CAF)**

In 2022, 30.7% of CAF's approvals were directed to financing green projects.<sup>136</sup> According to the 2022 annual report,<sup>137</sup> the Bank aims to mobilise USD 25 billion by 2026 to promote green growth in the Latin American and Caribbean region. This will involve increasing the size of its green portfolio from 24% in 2020, to 40% in 2026. The Bank has also committed to a target of 40% of annual project approvals to be focused on climate mitigation and adaptation, and to align all operations with the Paris Agreement objectives by 2026.<sup>138</sup> There is no clear indication whether this 40% annual approvals target is in fact intended to be synonymous with the 40% portfolio target – or whether it is a parallel target. It is also not clear what accounting methodology will be used to track progress toward this approval target. As a member of the IDFC, it is possible (but could not be confirmed publicly) that CAF is using the common principles for both adaptation and mitigation finance.

### **Inter-American Development Bank (IDB)**

Climate finance as a percentage of IDB operations has been steadily increasing from an initially low level, peaking at 29% in 2017 and 2019,<sup>139</sup> before a down year in 2020 at below 20% as a result of the prioritisation of COVID-19 response by the Bank. The IDB Group has both an explicit target of USD 24 billion in climate finance 2022–2025,<sup>140</sup> and a commitment for 30% of approvals (as an annual floor) to be categorised as climate finance in the period 2020–2023.<sup>141</sup> In 2021, 32% of approvals counted as climate finance, totalling USD 4.5 billion. In 2022, this increased to 43% of approvals, totalling USD 5.9 billion. Both these annual figures represented record levels for the Bank but remain short of the

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<sup>133</sup> BOAD, **Rapport annuel 2022**

<sup>134</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**

<sup>135</sup> BOAD, February 2023, **West African Development Bank climate policy**

<sup>136</sup> CAF, **Acción CAF**

<sup>137</sup> CAF, **2022 annual report**

<sup>138</sup> CAF, July 2023, **CAF operations will be aligned with the Paris Agreement**

<sup>139</sup> IDB, October 2021, **IDB Group and climate action position paper – COP26**

<sup>140</sup> Ibid.

<sup>141</sup> IDB, March 2021, **Inter-American Development Bank Group climate change action plan 2021–2025**



USD 6 billion needed annually to fulfil the 2022–2025 target. In terms of accounting, IDB utilises the common principles for climate mitigation and adaptation finance.

### **Banco de Comercio Exterior de Colombia (Bancóldex)**

Since 2011, Bancóldex has financed 1 trillion Colombian pesos (COP) in “green projects”, which are categorised as “operations with a positive impact on the environment”.<sup>142</sup> The Bank’s green portfolio has been growing at a steady pace since 2009, peaking in 2019 with disbursements of over USD 92.4 million (COP 380 billion). Although Bancóldex has a history of setting annual targets for green projects,<sup>143</sup> the Bank has not established any new green project or green finance targets since 2021. As of 2022, Bancóldex disbursed USD 42.8 million (COP 176 billion) across 1600 green growth projects, accounting for 26% of the Bank’s total investments. The Bank does not report its mitigation and adaptation amounts regularly, with the latest available figures reported to the International Development Finance Club in 2021.<sup>144</sup> In 2021, 2.6% of total green finance went to adaptation finance, while the remaining 97.4% went to mitigation.

### **Brazilian Development Bank (BNDES)**

BNDES does not have an explicit climate finance target, nor does it track climate finance at any level of its operations. It does, however, track SDG 13 disbursements, which were calculated as 15% of total disbursements in 2022.<sup>145</sup> The Bank also has a target for “green economy” approvals to increase by 20% in 2023. BNDES’ climate commitments are aligned with the Brazilian NDC,<sup>146</sup> including carbon neutrality by 2050 for scope 1 through 3 of its emissions inventory. As of 2023, BNDES is in the process of defining further targets for its direct, indirect, and variable income credit portfolios.

### **China Development Bank (CDB)**

CDB does not have an explicit climate finance target, and only reports mitigation and adaptation amounts to the International Development Finance Club.<sup>147</sup> The share of mitigation and adaptation finance vary from year-to-year. In 2021, mitigation finance stood at 86.8% of the Bank’s total green commitments, with adaptation finance at 7.8%. It is not clear what the full remaining 5.4% but

<sup>142</sup> Bancóldex, 2021, **Reporte de sostenibilidad 2021**

<sup>143</sup> Bancóldex, 2020, **Sustainability report 2020**

<sup>144</sup> International Development Finance Club, **Green finance mapping**, accessed November 2023

<sup>145</sup> BNDES, **Relatório anual 2022**

<sup>146</sup> BNDES, November 2022, **Clima e desenvolvimento – A contribuição do BNDES para uma transição justa**

<sup>147</sup> International Development Finance Club, **Green finance mapping** (webpage), accessed November 2023



biodiversity is stated to be part of it. As part of CDB's action plan for green low-carbon finance, the Bank established a target for green loans to account for 30% of credit assets by 2030. Furthermore, green loans should increase by 5% by 2025, compared to 2020 levels.<sup>148</sup> Since the action plan is not available to the public, it is unclear how CDB defines its green loans. CDB is also part of the initiative developing green investment principles along with BRI.<sup>149</sup>

### **Caisse de Dépôt et de Gestion (CDG)**

CDG has committed to finance climate change mitigation and adaptation projects, in line with Morocco's NDC.<sup>150</sup> However, no current statistics or formal targets with regards to share of climate finance have been made public. CDG is part of the IDFC and the Mainstreaming Climate in Financial Institutions initiative, however it is unclear how it implements the Paris alignment commitments made in this context. CDG Capital has set up a Sustainable Development unit to establish climate financing targets, structure climate transactions and upgrade skills of staff in relation to climate processes and approaches.<sup>151</sup>

### **Development Bank of Southern Africa (DBSA)**

DBSA's corporate strategy identifies climate finance and just transition as key areas to pursue in order to drive growth.<sup>152</sup> In 2021, the Bank committed to achieving a net zero portfolio by 2050, and to align its operations with the Paris Agreement.<sup>153</sup> It is not made clear whether this alignment pledge is intended as a synonymous pledge to the Bank's commitment to support fulfilling South Africa's NDC. The Bank does not report annual climate finance (or any other denomination such as "green finance") statistics as part of its annual or sustainability reports.

### **PT Sarana Multi Infrastruktur (PT SMI)**

PT SMI has previously set a target increase portion of financing related to climate change mitigation (in outstanding value) to a minimum of 7.5% by the end of 2022.<sup>154</sup> The Bank's five-year plan (covering 2019–2024) extends this target to a minimum of 10% by 2024. The Bank has also committed to supporting Indonesia

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<sup>148</sup> China Banking News, December 2021, [China Development Bank sets target of 30% green loans by 2030](#)

<sup>149</sup> City of London, April 2019, [Green Belt and Road principles receive industry backing](#)

<sup>150</sup> CDG, [Pour un modèle de financement durable](#) (webpage), accessed November 2023

<sup>151</sup> CDG, June 2017, [CDG Capital sets up a Sustainable Development unit](#)

<sup>152</sup> DBSA, February 2023, [DBSA corporate plan 2023/24–2025/26](#)

<sup>153</sup> Ibid.

<sup>154</sup> PT SMI, [Statement on climate change issue](#) (webpage), accessed November 2023



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realise its NDC, as well as net zero by 2060. As a member of the IDFC, it is possible (but could not be confirmed publicly) that PT SMI is using the common principles for both adaptation and mitigation finance.

## Indirect finance

Assessment focus:

- > For intermediary financing, any relevant specific policies (or stipulations contained in other policies), regulations, and or frameworks which apply to intermediary financing (either at the project or counterparty level).
- > Any TA being provided to intermediaries to support their climate mainstreaming and facilitate compatibility with the PDB's own institutional climate strategy and commitment to the Paris Agreement will be relevant.

### AfDB

The integrated safeguards system (ISS) which AfDB applies across its operations, also covers lending to or investing in financial intermediaries.<sup>155</sup> While the ISS includes provisions for the AfDB to utilise the environmental and social framework of the client, the Bank is first required to review this framework and identify any necessary measures to address gaps in the client's framework, including addressing capacity issues. It is not clear to what extent AfDB itself provides TA to address any issues raised in these assessments, or more broadly to assist financial intermediaries with mainstreaming climate in their operations. AfDB partakes in and has launched leading regional initiatives to green the wider financial system and provide TA for climate mainstreaming. Notable among these are the African Green Bank Initiative (to de-risk investments in low-carbon and climate-resilient projects in Africa through TA and co-financing), and its membership of the African Financial Alliance on Climate Change (AFAC).<sup>156</sup> AfDB also applies the joint MDB methodological principles on assessment for Paris Agreement alignment (PAA) on financial intermediary clients.<sup>157</sup>

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<sup>155</sup> AfDB, May 2023, **Integrated Safeguards System – April 2023**

<sup>156</sup> AfDB, **African Financial Alliance on Climate Change (AFAC)** (webpage), accessed November 2023

<sup>157</sup> Joint MDB Group, **Joint MDB methodological principles for assessment of Paris Agreement alignment**, accessed November 2023



### ADB

According to the ADB’s safeguard policy statement,<sup>158</sup> “ADB conducts safeguard due diligence to assess the potential environmental and social (E&S) impacts and risks associated with the financial intermediary’s existing and likely future portfolio”. For intermediaries with minimal or no adverse E&S risks, no other specific requirements apply. All other financial intermediaries will be required to establish an E&S management system. All financial intermediaries will also ensure that their investments follow applicable national laws and regulations, and not fund investments in ADB’s prohibited activities list. Aside from these requirements, the policy also affirms the Bank’s commitment to the provision of TA to support financial intermediaries in meeting its E&S objectives but without clear details regarding how this is operationalised. ADB also applies the joint MDB methodological principles on assessment for Paris Agreement alignment (PAA) on financial intermediary clients.

### AIIB

AIIB requires its financial intermediaries, including sub-projects, to be monitored and assessed against the Bank’s environmental and social framework (ESF).<sup>159</sup> In particular, it requires projects to comply with the Bank’s exclusion list, develop a sound environmental and social management system (ESMS), and prior approval of higher risk activities. Despite this, civil society organisations have raised concerns on AIIB’s “hands-off approach”<sup>160</sup> and perceived lack of transparency in implementing its ESF.<sup>161</sup> The AIIB has published its Paris alignment methodology with a transaction-based approach and counterparty-based approach in assessing Paris Agreement alignment.<sup>162</sup> For financial intermediary projects, assessments of materiality of physical climate risks are required unless it is included in a list of activities considered as automatically aligned. The counterparty-based approach requires an assessment of the country’s mandatory regulatory environment, climate risk management system through AIIB Financial Intermediary Questionnaire and Climate Risk Management Matrix, and a commitment from the client to a Paris Alignment action plan (PAAP). Further, the methodology contains sector-specific approaches for AIIB’s core sectors.

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<sup>158</sup> ADB, June 2009, **Safeguard policy statement**

<sup>159</sup> AIIB, last updated November 2022, **Environmental and social framework**

<sup>160</sup> NGO Forum on ADB, January 2018, **Letter to President Jin, AIIB, re: the AIIB’s investments in financial intermediaries: CSOs call for disclosure and accountability**

<sup>161</sup> Bank Information Center Europe and Centre for Financial Accountability India, June 2018, **Risky venture: The AIIB’s hands off approach to funding infrastructure in India**

<sup>162</sup> AIIB, July 2023, **Methodology for assessing the alignment of AIIB investment operations with the Paris Agreement**



### BOAD

BOAD directives stipulate that sub-projects financed through intermediary financing will be subject to environmental impact assessment conducted by project developers to ensure alignment with national legislations.<sup>163</sup> The capacity of financial intermediaries to do so will be validated by BOAD, although it is not made clear how. In the context of specific projects, BOAD will “provide advice and assistance” for the monitoring and reporting of “climate-related aspects” of these projects,<sup>164</sup> but further details on what this entails are not available. In its strategic plan, BOAD commits to pursue the greening the West African Economic and Monetary Union (UEMOA) financial sector and promote financial innovation to increase private climate finance as a priority for action.<sup>165</sup> Since 2020, BOAD has partnered with AFD to develop climate finance in the UEMOA zone.<sup>166</sup>

### CAF

CAF’s environmental and social safeguards requires its financial intermediaries to produce an E&S policy in which environmental and social risks are evaluated for their whole portfolio.<sup>167</sup> Financial intermediaries are required to comply with CAF’s exclusion list<sup>168</sup> and report on their social and environmental risk management strategies. Reporting frequency is established in the credit contract, which depends on the portfolio risk assessment and the amount of the credit. However, there is no standard methodology regarding when and/or how takes place or which specific values are reported.

### IDB

The IDB Group’s environmental and social policy framework (ESPF)<sup>169</sup> lays out how the Bank’s extensive guidelines and procedures to manage climate, environmental and social risks across its portfolio applies to FIs. The IDB may rely on a client’s own framework if functional equivalence is determined and providing agreement on any required measures to address gaps. As part of its Pairs Alignment implementation approach (PAIA), IDB has published specific guidance for operations with financial intermediaries. However, both technical

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<sup>163</sup> BOAD, **Directives operationnelles de la BOAD**

<sup>164</sup> BOAD, February 2023, **West African Development Bank climate policy**

<sup>165</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**

<sup>166</sup> AFD, November 2020, **Climate finance, post-COVID-19 recovery: AFD and BOAD strengthen their strategic cooperation**

<sup>167</sup> CAF, September 2016, **Salvuardas ambientales y sociales**

<sup>168</sup> CAF, **Annex 6: Environmental and social management framework**

<sup>169</sup> IDB, October 2021, **Environmental and social policy framework**





and methodological detail is lacking in some respects.<sup>170</sup> It is unclear whether a counterparty assessment is applied to all financial intermediaries, or only for those where ring-fencing of operations is not feasible. Moreover, while recognising the need to support the capacities of intermediaries, the IDB will rely on their processes and regulatory context for assessing the alignment of transactions, rather than requiring their own E&S policies. The IDB provides support to its intermediary lenders specifically for the identification of adaptation and resilience investment opportunities so that borrowers can develop strategies to risk-proof their businesses in the face of climate risks. The Bank also published a guidebook for national development banks on climate risk in 2021.<sup>171</sup> Alongside ALIDE, IDB has also established a regional working group on alignment to the Paris Agreement (WGPA)<sup>172</sup> to support other PDBs in the process of alignment.

### **Bancóldex**

Bancóldex has developed its own environmental and social risk management system, SARAS, and this is applied to direct lenders, SMEs, and second-tier credit through financial intermediaries. There is no publicly available information on the application details. However, the Bank claims that it will support and capacitate financial intermediaries in the adoption of best environmental and social practices,<sup>173</sup> yet information on how this will be operationalised is lacking. The Bank does offer programmes and courses, both for direct clients and intermediaries, such as in the identification of opportunities in projects with high potential on emissions reductions or environmental and social risk management (for financial institutions).<sup>174</sup>

### **BNDES**

Financial institutions which are accredited by BNDES to receive “automatic support”, are themselves in turn responsible for the verification of social and environmental compliance among beneficiaries and enterprises they support. They must do so in line with BNDES’ own socio-environmental policy<sup>175</sup> and any “other applicable BNDES regulations” in a given case. The policy also commits

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<sup>170</sup> Germanwatch, July 2023, **The IDB’s Paris Alignment approach sets out important principles but highlights concerns over timeline and rigour**

<sup>171</sup> IDB, June 2021, **A guidebook for National Development Banks on climate risk**

<sup>172</sup> Green Finance for Latin America and the Caribbean, April 2023, **First meeting of the working group on Paris Agreement alignment, GTAAP**

<sup>173</sup> Bancóldex, May 2022, **Sistema de Administración de Riesgos Ambientales – SARAS (video)**

<sup>174</sup> Bancóldex, **Capacitación** (webpage), accessed November 2023

<sup>175</sup> BNDES, **Socioenvironmental policy** (webpage), accessed November 2023



BNDES to “induce the best practices of social and environmental responsibility in its suppliers, clients, accredited financial institutions and other partners, contributing to the advancement of sustainable development” but does not detail how this support is operationalised. As of 2023, BNDES has also implemented a tracking system (which can lead to project cancellation) to safeguard against indirect finance contributing to deforestation.

### **CDB**

It is not clear whether CDB works with other financial intermediaries to promote green finance, or what strategies and policies guide its engagement with financial intermediaries. There’s also no indication on whether and how CDB provides TA to its clients to ensure compliance with ESG/climate-related standards.

### **CDG**

There is no information available on whether CDG has climate-related requirements and/or screening processes for intermediary lending. However, it does collaborate with FSD Africa to support the integration of environmental criteria into corporate financing strategies.<sup>176</sup> CDG Capital has published recommendations which include providing TA for the financial structuring of climate-friendly projects.<sup>177</sup>

### **DBSA**

DBSA’s comprehensive ESS<sup>178</sup> are embedded throughout the investment value chain of “all programmes and projects”. Specifically, clients are required to utilise “relevant E&S tools/tactics/methods” that are commensurate with project risk, as well as describing the climate change impacts and influences of a given project. DBSA and the client agree on a “commitment plan” to cover any outstanding risks identified in a safeguard report. The Bank will engage with clients on this basis, including supporting annual review monitoring and compliance with their ESS obligations.

### **PT SMI**

PT SMI’s environmental and social safeguard guidelines (ESS)<sup>179</sup> apply to all of its financing activities. Specifically, the Bank has an environmental and social risk

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<sup>176</sup> La Vie Éco, June 2023, **CDG Capital plaide pour une intégration plus forte de la finance verte au Maroc**

<sup>177</sup> CDG, May 2021, **Débat CGEM panel no7: Maroc durable: le nouveau souffle**

<sup>178</sup> DBSA, **Environmental and social safeguard standards**

<sup>179</sup> PT SMI, October 2020, **Environmental and social safeguard guidelines**



management function tasked to “implement the provisions in the guidelines of the ESS, conduct assessments of E&S risks, recommend corrective action plans”. In addition, the Bank has also developed the Regional Infrastructure Development Fund (RIDF)<sup>180</sup> to increase regional capacity in implementing sustainable development through financial intermediaries, and the Bank’s ESS guidelines were applied in the fund’s sub-projects.

## Institutional strategy and governance

Assessment focus:

- > How the overarching institutional strategy integrates climate (both mitigation and adaptation).
- > The existence and if so the comprehensiveness of a dedicated climate strategy.

### AfDB

The AfDB is currently implementing its third climate change action plan (2021–2025).<sup>181</sup> The CCAP explicitly targets Paris alignment, with reference to the MDB approach to Paris alignment. Specifically, it aims to fully align new operations with Paris Alignment Building Blocks 1, 2, and 3 by 2023, and target full alignment with Building Blocks 4, 5, and 6 by 2025. The Bank has a climate and green growth strategic framework to enable the Bank to fully align its operations with the Paris Agreement, as well as a monitoring, evaluation, reporting and learning (MERL) system to help monitor and report on progress related to climate change adaptation and resilience.<sup>182</sup>

### ADB

Published in 2018, one of ADB’s seven operational priorities for its “Strategy 2030” is on addressing climate change.<sup>183</sup> Since 2017, ADB also has an active climate change operational framework 2017–2030 (CCOF 2030),<sup>184</sup> which describes climate change as “imposing significant costs in Asia and the Pacific”; thus the framework supports climate adaptation and mitigation actions, and

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<sup>180</sup> The World Bank, last update August 2023, **Regional Infrastructure Development Fund**

<sup>181</sup> AfDB, March 2023, **Climate change and green growth strategic framework: Operationalising Africa’s voice – Action plan 2021–2025**

<sup>182</sup> AfDB, October 2021, **Climate and green growth strategic framework: Projecting Africa’s voice – policy**

<sup>183</sup> ADB, July 2018, **Strategy 2030**

<sup>184</sup> ADB, August 2017, **Climate change operational framework 2017–2030: Enhanced actions for low greenhouse gas emissions and climate-resilience development**



supports DMCs in translating their NDC aspirations. In terms of Paris alignment, ABD has committed to “achieve full alignment of its sovereign operations by 1 July 2023.<sup>185</sup> Alignment of its non-sovereign operations will reach 85% by 1 July 2023 and 100% by 1 July 2025”. To realise its commitments, the Bank has developed a new database with figures and insights on projects supporting climate change mitigation and adaptation efforts.<sup>186</sup>

### **AIIB**

AIIB’s corporate strategy 2021–2030<sup>187</sup> identifies green infrastructure<sup>188</sup> as one of the Bank’s thematic priorities. However, concrete targets or guidance on how AIIB plans to increase its support for green infrastructure in light of this are limited. AIIB’s climate action plan (CAP), published in 2023, does not outline new climate targets, but instead predominantly aggregates the Bank’s existing climate actions across the board.<sup>189</sup> In terms of climate change mitigation, the support for fossil fuels outline makes clear that AIIB first and foremost prioritises energy access among its members, beyond supporting them in the transition to clean energy. AIIB published its own framework to screen its operations for Paris alignment, operational as of April 2023.<sup>190</sup>

### **BOAD**

Building greater resilience to climate change is one of five strategic priorities set forward by BOAD in its 2021–2025 strategic plan.<sup>191</sup> BOAD is part of the Mainstreaming Climate in Financial Institutions Group<sup>192</sup> and has therefore committed to integrate climate considerations in its strategy and develop targets in to align activities with the Paris Agreement. In 2023 BOAD published a standalone climate strategy, to be reviewed every three years.<sup>193</sup> It establishes green finance mobilisation, food security through climate-smart agriculture, sustainable urbanisation, energy decarbonisation and climate resilience as its priorities for intervention. It commits to financing projects in line with NDCs and LTSs of countries. However, the strategy states BOAD will only define Paris

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<sup>185</sup> ADB, July 2021, **ADB commits to full alignment with Paris Agreement**

<sup>186</sup> ADB, **Climate change financing at ADB** (webpage), accessed November 2023

<sup>187</sup> AIIB, September 2020, **Corporate strategy – Financing infrastructure for tomorrow**

<sup>188</sup> AIIB, **Green infrastructure** (webpage), accessed November 2023

<sup>189</sup> AIIB, September 2023, **Climate action plan**

<sup>190</sup> AIIB, **AIIB and Paris alignment** (webpage), accessed November 2023

<sup>191</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**

<sup>192</sup> **Mainstreaming Climate in Financial Institutions** (website), accessed November 2023

<sup>193</sup> BOAD, February 2023, **West African Development Bank climate policy**



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aligned climate projects thresholds in terms of adaptation and mitigation from 2026 onwards.

### CAF

Although there are references across various information sources from CAF regarding an “Institutional Strategy 2022–2026” to support successful alignment with the goals of the Paris Agreement,<sup>194</sup> this does not appear to be publicly available. CAF also does not appear to have a standalone climate strategy. However, during 2022 the Bank devised a strategic plan to “become the green bank of Latin America”.<sup>195</sup> This plan includes initiatives such as “fair energy transition”, “greener operations” and “biodiversity and ecosystem systems”, amongst others. CAF has also developed an internal strategy aligned with the Principles for Responsible Investment.<sup>196</sup> The internal strategy is said to help identify social and environmental objectives, and a monitoring framework to help report and examine progress. However, relevant documentation is currently not publicly available.

### IDB

Published in 2021, the IDB’s overarching “Vision 2025” strategy identifies climate resilience, mitigation and adaptation as being part of a “pathway to accelerate the recovery” (in reference to the global economic situation post-COVID-19 pandemic).<sup>197</sup> Consequently, the need for mainstreaming climate change, to be considered across all activities, is identified as a “cornerstone” of Vision 2025. While there is specific reference to facilitating the Paris alignment of regional countries, little specific detail is provided regarding this. The IDB Group climate change action plan (CCAP) 2021–2025, describes climate change as threatening “the achievement of social and economic results across Latin American and Caribbean (LAC)” and is centered around the six-building blocks structure of the joint MDB Paris alignment process.<sup>198</sup> Since 2021, the IDB has developed its own framework to screen its operations for Paris alignment in a country context, operational as of April 2023.<sup>199</sup>

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<sup>194</sup> CAF, July 2023, **CAF operations will be aligned with the Paris Agreement**

<sup>195</sup> CAF, **2022 annual report**

<sup>196</sup> Principles for Responsible Investment, **What are the Principles for Responsible Investment?** (webpage), accessed November 2023

<sup>197</sup> IDB, February 2021, **Vision 2025: Reinvest in the Americas: A decade of opportunity**

<sup>198</sup> IDB, March 2021, **Inter-American Development Bank Group climate change action plan 2021–2025**

<sup>199</sup> IDB, March 2023, **IDB Group Paris Alignment implementation approach: Principles, methodology, and technical guidance**



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### **Bancóldex**

Supporting sustainable development is one of Bancóldex’s four strategic fronts.<sup>200</sup> Specifically, Bancóldex identifies “green growth” as a pillar to supporting sustainable development, and has set forth a sustainability strategy to implement this.<sup>201</sup> However, the Paris Agreement is not mentioned or integrated into the sustainability strategy. Bancóldex’s recent annual report mentions the Bank’s support in environmental protection of the Colombian business sector, and the design of financial and non-financial products for climate change mitigation and adaptation, but does not mention specific strategies or tools designed for such purposes.<sup>202</sup> The report also mentions the Bank’s commitment to carbon neutrality by 2024 for its internal operations. During the 2023 FiC Summit, Bancóldex signed a memorandum of understanding with AFD to strengthen their commitment to sustainable development, including mentioning the Bank’s commitment to aligning with the Paris Agreement.<sup>203</sup>

### **BNDES**

BNDES updates its strategy each year as part of its annual report, with the current edition seeking to prioritise “long-term issues associated with the sustainable development agenda”.<sup>204</sup> Climate change mitigation and adaptation are well-integrated into the strategy and recognised as central to BNDES “vision for development”. Beyond reference to Brazil’s NDC, the Paris Agreement is not substantively integrated into the current strategy. However, the 2023 strategy revision round is intended explicitly to integrate reference to the Paris Agreement. BNDES does not appear to have a dedicated climate strategy in place, but prepares an implementation plan for the social and environmental responsibility policy (alternatively referred to as the corporate social responsibility action plan), with 2018–2020 being the most recent version publicly available.<sup>205</sup>

### **CDB**

CDB’s action plan to accelerate green and low-carbon growth is not available to the public, despite the Bank stating that one of its five core values is said to be

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<sup>200</sup> Bancóldex, **Corporate strategy** (webpage), accessed November 2023

<sup>201</sup> Bancóldex, **More sustainable** (webpage), accessed November 2023

<sup>202</sup> Bancóldex, **Annual report 2022**

<sup>203</sup> AFD, September 2023, **Bancóldex and AFD strengthen commitment to sustainable development in Colombia**

<sup>204</sup> BNDES, **Relatório anual 2022**

<sup>205</sup> BNDES, **Corporate social responsibility policy action plan 2018–2020**



green growth.<sup>206</sup> CDB claims to “incorporate the notion of green credit into all aspects of its business operations”, adhere to the “green development principle”, and follow international ecological protection principles and regulations in managing construction projects. Yet, there’s no further detail on how CDB operationalises this core value, how it defines its green development principle, or how this relates to the country’s commitment to the Paris Agreement. In 2021, CDB released an action plan on implementing green and low-carbon financial strategies to support the China’s carbon neutrality target.<sup>207</sup> CDB also stated in its 2022 annual report that it is committed to becoming a green Bank<sup>208</sup> and is known in the Chinese capital market to be a major actor in promoting green and climate finance within the country.<sup>209</sup> Although this would seem to qualify as a standalone climate strategy, public details are limited. CDB is committed to align with the Paris Agreement as part of the International Development Finance Club.<sup>210</sup> Currently, there is no information on how CDB has operationalised and implemented this wider IDFC commitment.

### CDG

CDG remains in the process of developing its 2023–2027 strategic plan and does not at present appear to have a standalone climate strategy. The 2017–2022 strategic plan affirms that CDG integrates climate as a transversal issues to be integrated across its strategic pillars, development strategy and financing decisions,<sup>211</sup> thereby aligning<sup>212</sup> itself with the Moroccan government’s 2017 national sustainable development strategy.<sup>213</sup> Energy efficiency, overall reduction of portfolio emissions and mobilisation of green finance are established as priorities. According to CDG, all of its commitments are in the process of being formalised in a sustainable development charter.<sup>214</sup> Adaptation

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<sup>206</sup> CDB, **Core values** (webpage), accessed November 2023

<sup>207</sup> CDB, December 2021, **The China Development Bank (CDB) released an action plan to support carbon peaking and carbon neutrality**

<sup>208</sup> CDB, **2022 annual report**

<sup>209</sup> Xinhuanet, September 2021, **China Development Bank (CDB) – A financial pioneer serving green development**

<sup>210</sup> Joint IDFC–MDB statement, December 2017, **Together major development finance institutions align financial flows with Paris Agreement**

<sup>211</sup> CDG, June 2017, **Plan stratégique 2022**

<sup>212</sup> CDG, **Développement durable** (webpage), accessed November 2023

<sup>213</sup> Moroccan government, **Stratégie nationale de développement durable** (webpage), accessed November 2023

<sup>214</sup> CDG, **Rapport d’activité 2021**





(especially relating to the water sector) and economy-wide decarbonisation were established as priorities for 2023.<sup>215</sup>

### **DBSA**

While DBSA does not appear to have a publicly available full institutional strategy document, the Bank claims its strategy is broadly guided by South Africa's national development plan and the UN SDGs.<sup>216</sup> It also pledges to support fulfilling the country's NDC. This is primarily operationalised through a focus on infrastructure investment, while prioritising "financial sustainability and strong governance".<sup>217</sup> Underpinning DBSA's work is the Bank's "development position",<sup>218</sup> which explicitly names contributing to a "just transition" and "society that embodies resilience" as part of this. DBSA's has a suite of ESG and sustainability policies that combine to form its ESMF, made up of ten separate frameworks, standards, and policies across the Bank's operations.<sup>219</sup>

### **PT SMI**

PT SMI does not have a public institutional strategy, but the Bank's mission is said to support "the sustainable development goals, in line with efforts to climate change (adaptation and mitigation) response".<sup>220</sup> The Bank has issued a policy statement on climate change,<sup>221</sup> stating commitment to support the Indonesian government, as a special mission vehicle under the Ministry of Finance, in implementing its low-carbon development strategy including the country's NDC to reduce GHG emissions 31.89% unconditionally and 43.2% conditionally by 2030. The Bank is also committed to support the government in reaching net zero emission in 2060 or sooner in accordance with Indonesia's LTS. PT SMI's most recent sustainability report further underlines the commitment to climate change mitigation in particular,<sup>222</sup> while stating that the Bank's operational activities generally do not have direct contact or have major impact on the environment.

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<sup>215</sup> CDG, November 2022, **Comment se présente 2023?**

<sup>216</sup> DBSA, **Sustainable development** (webpage), accessed November 2023

<sup>217</sup> DBSA, **Our strategy** (webpage), accessed November 2023

<sup>218</sup> DBSA, **Our development position** (webpage), accessed November 2023

<sup>219</sup> DBSA, February 2023, **DBSA corporate plan 2023/24–2025/26**

<sup>220</sup> PT SMI, **Vision, mission & values** (webpage), accessed November 2023

<sup>221</sup> PT SMI, **Statement on climate change issue** (webpage), accessed November 2023

<sup>222</sup> PT SMI, **Sustainability report 2022: Together pushing the boundaries for sustainability**



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## Adaptation and resilience

Assessment focus:

- > Measures and or processes in place to screen for climate risk throughout the entire project cycle and how this is currently accounted for.
- > Any climate risk screening occurring at any aggregated level (e.g., sector, country, or portfolio level).
- > Visible specific commitment and/or dedicated initiatives to promoting adaptation finance.

### AfDB

AfDB is the only MDB to achieve (and exceed) parity between adaptation and mitigation finance. Initiatives such as the Africa Adaptation Acceleration Programme<sup>223</sup> and Adaptation Benefit Mechanism<sup>224</sup> represent leading efforts in the space. AfDB has a comprehensive set of project-level procedures for screening for climate risk and implementing corresponding adaptation measures where necessary. Climate risk screening is mandated across “all projects, activities, and other initiatives” in the AfDB’s integrated safeguards system (ISS).<sup>225</sup>

### ADB

All ADB projects are screened for climate risks. Projects identified to have a medium or high risk undergo further screening with dedicated tools such as AWARE for projects.<sup>226</sup> Risks are quantified and adaptation options are identified to be integrated into project design. Afterwards, a technical and economic evaluation of the adaptation option is undertaken, and the most appropriate climate-proofing option is selected. The ADB’s safeguard policy statement includes the Bank’s environmental safeguards,<sup>227</sup> which are based on the World Bank Group’s environment, health and safety guidelines.<sup>228</sup> These safeguards apply to projects that are directly financed by ADB and “risky” projects done by financial intermediaries, which are either Category A or Category B. As of April 2022, ADB is the single MDB with the largest commitment to adaptation finance,

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<sup>223</sup> AfDB, **Africa Adaptation Acceleration Program** (webpage), accessed November 2023

<sup>224</sup> AfDB, **Adaptation Benefit Mechanism (ABM)** (webpage), accessed November 2023

<sup>225</sup> AfDB, May 2023, **Integrated safeguards system – April 2023**

<sup>226</sup> ADB, November 2014, **Climate risk management in ADB projects**

<sup>227</sup> ADB, June 2009, **Safeguard policy statement**

<sup>228</sup> International Finance Corporation, **Environmental, health and safety guidelines** (webpage), accessed November 2023



of which USD 34 billion of its USD 100 billion climate financing goal by 2030 will be dedicated to adaptation.

### **AIIB**

AIIB's new Paris alignment methodology includes climate risks screening and proofing procedures at the project level.<sup>229</sup> One of the three specific Paris alignment assessment criteria is to establish the climate risk and vulnerability context of a project. It requires project proposals to have conducted a sensitivity, exposure, and vulnerability analysis of potential climate hazards. However, it does not mandate the use of specific sensitivity matrices. Projects deemed medium to high risk then must undergo a detailed climate risk and vulnerability assessment. Since 2019, AIIB has been using Acclimatise's AWARE for Projects tool<sup>230</sup> to screen infrastructure projects against physical climate-related risks early on in the project cycle. For medium and high-risk projects, guidance is provided to the project team on how to reduce the climate vulnerability of the project. In terms of adaptation financing, the Bank has successfully priced its first climate adaptation bond worth USD 320 million (AUD500 million) in May 2023,<sup>231</sup> issued under the Sustainable Development Bond Framework.<sup>232</sup> However, the Bank has made no dedicated commitment to scale up its adaptation finance, and has only recently begun financing adaptation projects.

### **BOAD**

The BOAD 2023 climate policy strategy establishes climate risk screening requirements for all projects.<sup>233</sup> They will be assessed by the organisational unit in charge of climate at BOAD according to their low-carbon and vulnerability trajectory in line with the NDCs and LTSs commitments of member countries. No estimation of its past or current share of adaptation financing is provided by BOAD. However, according to the financing impact assessment in its strategic plan, BOAD estimates it will commit 26.2% of its climate financing over 2021–2025 to adaptation.<sup>234</sup>

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<sup>229</sup> AIIB, **AIIB and Paris alignment** (webpage), accessed November 2023

<sup>230</sup> ADB, November 2014, **Climate risk management in ADB projects**

<sup>231</sup> AIIB, May 2023, **AIIB issues first climate adaptation bond targeting resilient infrastructure**

<sup>232</sup> AIIB, April 2021, **Sustainable Development Bond framework**

<sup>233</sup> BOAD, February 2023, **West African Development Bank climate policy**

<sup>234</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**



## CAF

As per its environment and climate change guidelines,<sup>235</sup> CAF will target early risk assessment, loss and damage evaluation mechanisms, and climate change response and recovery capabilities in the rural, urban and natural ecosystems, as part of its contribution to climate resilience and adaptation. The Bank will aim to incorporate climate resilience across sectors of operation, through both financial and technical support. Its project-level risk screening procedures are not clear.

## IDB

The IDB Group's environmental and social policy framework (ESPF)<sup>236</sup> and disaster and climate change risk assessment methodology for IDB projects<sup>237</sup> lay out the Bank's extensive guidelines and procedures to manage climate, environmental and social risks across its portfolio, including requirements for borrowers. Supported by these policies, the Bank committed to assessing 100% of its "moderate" and "high" risk operations across its portfolio by 2023.<sup>238</sup> The IDB Group has made it a priority to increase adaptation financing to enhance climate resilience in LAC in the face of increasing natural disasters<sup>239</sup> (which have tripled in frequency over the past 50 years<sup>240</sup>). Although adaptation finance as a proportion of total IDB climate finance previously rose considerably from 25.7% in 2018,<sup>241</sup> to 38.7% in 2019,<sup>242</sup> this appears to have stagnated over the period 2019 – 2021, having fallen slightly to a figure of 35.1% by 2021.<sup>243</sup>

## Bancóldex

Bancóldex is currently working on updating its environmental and social risk management system<sup>244</sup> (SARAS<sup>245</sup>), which identifies, evaluates, mitigates and monitors environmental risks throughout the credit cycle of financed operations. As part of this, intermediary lenders are assigned a risk category, but it is not clear whether the Bank applies any restrictions to high-risk projects. The Bank

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<sup>235</sup> CAF, January 2017, **Lineamientos sobre ambiente y cambio climático de CAF**

<sup>236</sup> IDB, October 2021, **Environmental and social policy framework**

<sup>237</sup> IDB, December 2019, **Disaster and climate change risk assessment methodology for IDB projects**

<sup>238</sup> IDB, November 2021, **IDB launches plan of action to fully align operations with Paris Agreement by 2023**

<sup>239</sup> IDB, November 2022, **IDB and IDB Invest provided \$26 billion in climate financing over five years**

<sup>240</sup> United Nations, March 2021, **Natural disasters occurring three times more often than 50 years ago: new FAO report**

<sup>241</sup> Joint MDB Group, June 2019, **2018 joint report on Multilateral Development Banks' climate finance**

<sup>242</sup> Joint MDB Group, August 2020, **2019 joint report on Multilateral Development Banks' climate finance**

<sup>243</sup> Joint MDB Group, October 2022, **2021 joint report on Multilateral Development Banks' climate finance**

<sup>244</sup> Bancóldex, **Reporte de sostenibilidad 2022**

<sup>245</sup> Bancóldex, **Sistema de administración de riesgos ambientales y sociales SARAS**



applies IFC standards and Equator Principles for direct credits, while only applying the IFC standards for intermediary loans. As part of the Bank's strategic focus on green growth,<sup>246</sup> the bank will focus on projects that contribute to climate change both adaptation and mitigation. In 2021, the Bank disbursed over USD 700,000 (COP 3 billion) across 761 projects for climate adaptation.<sup>247</sup> However, only 2.6% of total green finance went to adaptation finance, while the remaining 97.4% went to mitigation.

### **BNDES**

BNDES' social and environmental responsibility policy mandates considering the impacts of its operations on the climate.<sup>248</sup> The corresponding socioenvironmental policy sets out the guidelines for project-level social and environmental risk screening throughout the project cycle.<sup>249</sup> However, it does not specifically refer to screening for climate risk, or for relevant mitigation, adaptation, and resilience measures. BNDES annual report for 2022 refers to an ongoing pilot for a methodology for direct investments to account for the physical and transition climate risks associated with a project.<sup>250</sup> There are also working plans to include climate risk in the Bank's risk appetite statement (RAS). BNDES does not appear to have set an adaptation finance target but is developing a new project classification methodology (to be released in 2023) to facilitate the tagging of adaptation projects.

### **CDB**

CDB only reports its climate investments through the IDFC Green finance mapping report.<sup>251</sup> Amount committed in adaptation and mitigation finance varies from year-to-year, suggesting that there is no internal commitment to increase or balance the share of finance in adaptation or resilience. Moreover, CDB does not integrate climate risks into its lending activities or project risk analysis.

### **CDG**

CDG has committed to integrate risks linked to climate change and the environment into its risk management system.<sup>252</sup> However, publicly available

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<sup>246</sup> Bancóldex, **Corporate strategy**, accessed November 2023

<sup>247</sup> Bancóldex, 2021, **Sustainability report 2021**

<sup>248</sup> BNDES, **Social and environmental responsibility policy** (webpage), accessed November 2023

<sup>249</sup> BNDES, **Socioenvironmental policy** (webpage), accessed November 2023

<sup>250</sup> BNDES, **Relatório anual 2022**

<sup>251</sup> International Development Finance Club, November 2022, **IDFC Green finance mapping report 2022**

<sup>252</sup> CDG, **Pour un modèle de financement durable**, accessed November 2023



details regarding how this is implemented are not available. While CDG inscribes<sup>253</sup> its actions within Morocco's NDC<sup>254</sup> and its national sustainable development strategy<sup>255</sup> in which adaptation is established as a clear priority, the Bank does not provide figures or targets with regards to its adaptation financing. Water is identified by CDG as the sector with the most important climate adaptation investment needs in Morocco,<sup>256</sup> while the Bank also provides TA and organises dialogues with regards to adaptation strategies such as on cities and urban development.<sup>257</sup>

### **DBSA**

Broadly, DBSA recognises its role as part of the financial sector in building the resilience of society and ecosystems.<sup>258</sup> Climate-induced events are recognised as material issues with significant potential impact on DBSA's operations in the short, medium, and long terms.<sup>259</sup> DBSA assesses environmental considerations for each proposed investment project, aiming to embed its sustainability principles throughout the project cycle. This includes identifying key issues at the project design stage, screening, and categorising project risk levels, linking risks and required mitigation measures to the approval process, and monitoring indicators throughout delivery. The Bank is also commencing work on climate risk scenarios and climate-related stress tests at the portfolio level.<sup>260</sup>

### **PT SMI**

Since 2017, PT SMI has implemented ESS management,<sup>261</sup> which identifies climate, social, and disaster risks, and mandates debtors to develop steps needed to mitigate such risks. The ESS guidelines are a minimum standard and covers all financing activities by PT SMI at the corporate and/or project level.<sup>262</sup> Given the size of the geothermal industry in Indonesia, PT SMI has also developed a specific risk mitigation framework for the Indonesia Geothermal

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<sup>253</sup> CDG, **Rapport d'activité 2021**

<sup>254</sup> Moroccan government, June 2021, **CDN-Maroc**

<sup>255</sup> Moroccan government, **Stratégie nationale de développement durable** (webpage), accessed November 2023

<sup>256</sup> CDG, November 2022, **Comment se présente 2023**

<sup>257</sup> Industries.ma, December 2022, **Développement durable: l'Institut CDG prepare les villes marocaines aux changements climatiques**

<sup>258</sup> DBSA, February 2023, **DBSA corporate plan 2023/24–2025/26**

<sup>259</sup> DBSA, **Integrated Annual Report 2023**

<sup>260</sup> Ibid.

<sup>261</sup> PT SMI, **Environmental and social safeguard** (webpage), accessed November 2023

<sup>262</sup> PT SMI, October 2020, **Environmental and social safeguard guidelines**



Resource Risk Mitigation Project (GREM).<sup>263</sup> Though PT SMI has not made any independent targets or commitments on integrating resilience in their portfolio, the institution is committed in assisting Indonesia realise their NDCs, and goals laid out in the long-term strategy for low carbon and climate resilience.<sup>264</sup> According to their 2022 sustainability report,<sup>265</sup> the Bank has not set any adaptation finance target in their sustainable finance action plan (RAKB), and there is no initiative in place by PT SMI dedicated to promoting adaptation finance.

## Energy policy

Assessment focus:

- > First and foremost, the energy sector policy of an institution and the extent to which this is designed to support a just transition and to recognise and manage transition risks (at the project, counterparty, sector, country, and portfolio levels).
- > The scope of fossil fuel financing, relevant initiatives, and financial instruments to support managed phase-out and any already existing exclusions.

### AfDB

The AfDB's dedicated energy sector policy<sup>266</sup> was drafted prior to the Paris Agreement and is still in the process of being updated to reflect more ambitious and urgent climate goals. However, AfDB's New Deal on Energy for Africa 2016–2025<sup>267</sup> incorporates reference to the Paris Agreement, promoting clean and sustainable energy for climate mitigation, and committing to screening every investment for climate risk, as well as actively building in resilience. The AfDB has in practice stopped financing coal and has an exclusion on upstream oil and gas which prevents exploration. Policy on downstream oil and gas financing requires a long-term strategy being in place, but financing is still permitted. There is no evidence of any supply-side efficiency exclusions or standards.

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<sup>263</sup> PT SMI, May 2019, **Indonesia Geothermal Resource Risk Mitigation Project (GREM) – Environmental and social management framework**

<sup>264</sup> Indonesian government, July 2021, **Long-term strategy for low carbon and climate resilience 2050**

<sup>265</sup> PT SMI, **Sustainability report 2022 – Together pushing the boundaries for sustainability**

<sup>266</sup> AfDB, **Energy sector policy**

<sup>267</sup> AfDB, **The Bank Group's strategy for the New Deal on Energy for Africa 2016–2025**





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### ADB

The vision of ADB’s energy sector policy is to support “low-carbon transition in Asia and the Pacific”.<sup>268</sup> The policy states that ADB has excluded all coal investments, with limited and conditional support to mid- and downstream natural gas investments. ADB has also developed the Energy Transition Mechanism (ETM) to use both private and public investments to retire coal power assets and replace them with renewable energy. Though ADB does not abide by or apply any specific energy and technology standards, the Bank aims to support member countries in setting such standards, and provides expertise in environmental, social, and governance standards.

### AIIB

The AIIB prioritises energy access over energy transition in approving projects, which is reinforced by the guiding principles of its climate action plan.<sup>269</sup> Its 2022 energy sector strategy update has shown emphasis on adaptation and climate resilience considerations for energy sector infrastructure.<sup>270</sup> For example, as part of the AIIB’s mandate to promote connectivity in power grid infrastructure, AIIB will support new transmission and distribution projects that increase power systems’ resilience to natural disasters. In terms of fossil fuel exclusions, the AIIB will not finance coal projects and upstream gas activities. However, AIIB will continue to support oil sector investments under exceptional circumstances and could deem such projects as Paris aligned.<sup>271</sup> The annex of AIIB’s Paris alignment methodology contains energy sector-specific approaches to facilitate alignment assessment.

### BOAD

While the 2021–2025 strategic plan commits BOAD to adopt an energy sectoral approach,<sup>272</sup> BOAD does not seem to have a dedicated energy sector policy document publicly available. BOAD establishes decarbonisation of the energy mix through the promotion of renewable energy and energy efficiency as one of its climate policy strategy’s guiding principles.<sup>273</sup> Nonetheless, BOAD does not seem to have any fossil fuels exclusion policies and plans to continue to finance

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<sup>268</sup> ADB, September 2021, **Energy policy: Supporting low-carbon transition in Asia and the Pacific**

<sup>269</sup> AIIB, September 2023, **AIIB unveils climate action plan, reinforces commitment to tackle climate change**

<sup>270</sup> AIIB, November 2022, **Energy sector strategy: Sustainable energy for tomorrow**

<sup>271</sup> Climate Home, December 2022, **AIIB finds gas plant in Bangladesh compatible with Paris goals**

<sup>272</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**

<sup>273</sup> BOAD, February 2023, **West African Development Bank climate policy**



thermal power plants,<sup>274</sup> while still aiming to transition to support cleaner energy. In 2022, energy constituted approximately 21% of total BOAD funding approvals, and 23% of climate financing was allocated to solar energy projects.<sup>275</sup> In the strategic plan, it commits to the contribution to the development of 380 MW of capacity by 2025, of which at least 39% should be renewable.<sup>276</sup>

### CAF

CAF does not appear to have a dedicated energy sector strategy document. As part of its environment and climate change guidelines,<sup>277</sup> CAF states that it will support the generation of energy from renewables and transition to lower emissions intensity fuels. Moreover, according to its environmental and social safeguards,<sup>278</sup> CAF also promotes the “use of clean or renewable energies to reduce the GHGs emissions” and can enforce the application of additional safeguards in face of great risk for the environment. CAF’s exclusion list does not include fossil fuels,<sup>279</sup> and there appears to be no policy specifically governing fossil fuel investments.

### IDB

The IDB’s 2018 energy sector framework has a dedicated “energy sustainability” section covering climate change considerations as well as the challenges associated with it.<sup>280</sup> Although both climate mitigation and climate adaptation are mentioned across the document, only mitigation options are widely discussed. The IDB pledges to “promote demand and supply [...] of renewable energy production and cleaner fossil fuels such as natural gas to help reduce GHG emissions”. IDB has confirmed that exemptions to fossil financing are based on the specific cases set out by the guidance on fossil fuel energy at the multilateral development banks issued by the US Treasury in 2021.<sup>281</sup> In practice, IDB provides little finance to fossil fuels, with oil and gas projects only financed in exceptional circumstances and on a case-by-case basis. Such circumstances would include where there is a clear benefit in terms of energy access for the poor and where greenhouse gas (GHG) emissions are minimised, projects are

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<sup>274</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**

<sup>275</sup> BOAD, **Rapport annuel 2022**

<sup>276</sup> BOAD, September 2020, **Djoliba plan strategique 2021–2025**

<sup>277</sup> CAF, January 2017, **Lineamientos sobre ambiente y cambio climático de CAF**

<sup>278</sup> CAF, September 2016, **Salvaguardas ambientales y sociales**

<sup>279</sup> CAF, **Annex 6: Environmental and social management framework**

<sup>280</sup> IDB, October 2018, **Energy sector framework document**

<sup>281</sup> US Treasury, 2021, **Guidance on fossil fuel energy at the multilateral development banks**



consistent with national goals on climate change, and risks of stranded assets are properly analysed.

### **Bancóldex**

Bancóldex does not appear to have an energy policy or strategy. Nonetheless, the Bank's established the Energy Savings Insurance (ESI) Programme with the IDB to mainstream investments toward energy efficiency and mitigation of CO<sub>2</sub> emissions.<sup>282</sup> Between 2017 and 2022, the Bank has financed over 300 projects of energy efficiency and renewable energy generation.<sup>283</sup> The Bank's exclusion list does not include references to fossil fuel or coal phase out,<sup>284</sup> and it is not clear how the Bank plans to avoid stranded assets risks in implementing a just transition.

### **BNDES**

BNDES has set out the relationship between climate, development and energy policy in a position paper detailing its contribution to a just transition.<sup>285</sup> Climate mitigation and adaptation are both recognised as critical for energy sector operations, and "green economy" operations make up 41% of its loan portfolio. BNDES approved projects between 2000 and 2021 were responsible for 60% of the expansion of Brazil's renewable electricity sector in this period. In terms of fossil financing, BNDES excludes power generation exclusively through either coal or oil from its financing, as well as the production of mineral coal for use in thermoelectric plants. However, it does not appear to have any exclusions in place on gas financing, nor specifically refer to exclusions on upstream activities related to either oil or gas.

### **CDB**

Oil and gas infrastructure is said to be a strategic priority of the CDB.<sup>286</sup> Moreover, the Bank has the largest level of fossil fuel financing in E3G's matrix assessment for bilateral and national institutions.<sup>287</sup> Simultaneously, a statement by the IDFC (which CDB is a member of) states that it "commits to end

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<sup>282</sup> Bancóldex, **Programa ESI** (webpage), accessed November 2023

<sup>283</sup> Bancóldex, **Reporte de Bonos Verdes 2022**

<sup>284</sup> Bancóldex, **Lista de Exclusión**

<sup>285</sup> BNDES, November 2022, **Climate and development: The BNDES's contribution to a just transition**

<sup>286</sup> CDB, **Strategic priorities** (webpage), accessed November 2023

<sup>287</sup> E3G, **Public Bank Climate Tracker Matrix – Bilateral & National** (webpage), accessed November 2023



international public finance for new unabated coal power generation”.<sup>288</sup> It is unclear the extent to which this statement has impacted CDB’s lending policies. There is no publicly available energy sector policy or strategy, nor any explicit targets on promoting energy efficiency, access, or transition. However, a subsidiary of CDB, the China Development Bank Capital (CDBC) has drafted guidelines for green and smart urban development,<sup>289</sup> which stipulates energy efficiency standards to be adhered to in buildings, and renewable energy targets. CDBC also published a draft of “12 Green Guidelines” in 2015,<sup>290</sup> but it is unclear the extent to which these guidelines have been applied as they were never explicitly finalised. Nonetheless, a version of the guidelines were referenced in CDBC’s development plans in 2018.<sup>291</sup>

### CDG

CDG has not published any energy sector strategy or guidelines for financing. Furthermore, it does not have any fossil fuel exclusion policies. However, CDG recognises that renewable energy deployment is key to economy-wide decarbonisation and establishes it as one of its priorities for action.<sup>292</sup> To this end, CDG collaborates with governments and research institutions to accelerate the renewable energy deployment in Morocco.<sup>293</sup> Furthermore, energy efficiency is also considered a priority for action. CDG announced at COP22 the launch of an Energy Service Company<sup>294</sup> which will support the overall energy consumption reduction target set out by the Moroccan NDC (15% reduction by 2030).

### DBSA

DBSA does not appear to have a public dedicated energy sector strategy document. Despite this, DBSA’s priority in the energy sector is to “accelerate energy access for the people of sub-Saharan Africa and ensure a just transition to low carbon economies”. As part of this, DBSA is committed to providing transition finance and will “not support new fossil fuel investments which are not part of a clear and unambiguous just transition plan to a decarbonised future”.<sup>295</sup>

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<sup>288</sup> IDFC, November 2021, **IDFC reports total financing of US\$ 1 trillion of green finance since COP21 with the potential to mobilize up to US\$ 1.3 trillion by 2025 and commits to end international public finance for new unabated coal power generation**

<sup>289</sup> CDBC, **Guidelines for green and smart urban development** (webpage), accessed November 2023

<sup>290</sup> CDBC, October 2015, **12 Green Guidelines – draft for comment**

<sup>291</sup> Energy Innovation, May 2018, **Emerald cities: Planning for smart and green China**

<sup>292</sup> CDG, November 2022, **Comment se présente 2023**

<sup>293</sup> CDG, **Rapport d’activité 2021**

<sup>294</sup> CDG, November 2016, **COP22: L’efficacité énergétique, pilier des stratégies de développement durable**

<sup>295</sup> DBSA, **Sustainability review 2023**



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It is not clear how the Bank operationalises this commitment in practice, although it has committed to “aggressively growing clean energy assets” as part of a just transition and decarbonisation pathway. DBSA’s energy sector focus involves targeting energy infrastructure development, through programmes such as the Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) and Embedded Generation Investment Programme (EGIP).<sup>296</sup>

### **PT SMI**

PT SMI does not have a dedicated energy sector policy document. Nonetheless, the institution has set a target to reduce the portion of financing for coal (in outstanding value) to a maximum of 5% by 2024. PT SMI had previously set a target to reduce the number of outstanding coal-fired power plant projects to a maximum of 10% in its five-year plan (2019–2024). The institution was appointed as the Energy Transition Mechanism Country Platform Manager,<sup>297</sup> to provide transition finance for energy transition and low-carbon economic development. In terms of overall fossil fuel financing, no new targets are made publicly but the Bank’s previous target for 2022 was to reduce financing of fossil fuel power plant projects (in outstanding value) to a maximum to 8%.<sup>298</sup> PT SMI also recently entered a partnership with the AIIB to implement Indonesia’s NDC milestones under the Paris Agreement.<sup>299</sup> The partnership will explore opportunities for project preparation, knowledge sharing, capacity building and TA in the field of energy transition.

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<sup>296</sup> DBSA, [The Embedded Generation Investment Programme](#) (webpage), accessed November 2023

<sup>297</sup> PT SMI, July 2022, [Becoming an Energy Transition Country Platform, here is PT SMI’s preparation](#)

<sup>298</sup> PT SMI, [Sustainability report 2022 – Together pushing the boundaries for sustainability](#)

<sup>299</sup> AIIB, September 2023, [AIIB partners with PT PLN, PT SMI for Indonesia energy transition](#)