

# Public Financial Institutions’ Climate Commitments: 2023 Update

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CLIMATE  
POLICY  
INITIATIVE

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## ABOUT CLIMATE POLICY INITIATIVE

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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## RELATED CPI WORKS

[Public Financial Institutions' Climate Commitments](#)

[Framework for Sustainable Finance Integrity](#)

[Private Financial Institutions' Commitment to Paris Alignment](#)

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# EXECUTIVE SUMMARY

**Effective and large-scale mobilization of finance by public financial institutions (PFIs) toward climate solutions is crucial to addressing the global climate investment gap.** Given their counter-cyclical role and ability to link diverse financial and political actors, PFIs are integral to supplying, channeling, and catalyzing climate finance from a range of sources, particularly in emerging markets and developing economies (EMDEs).

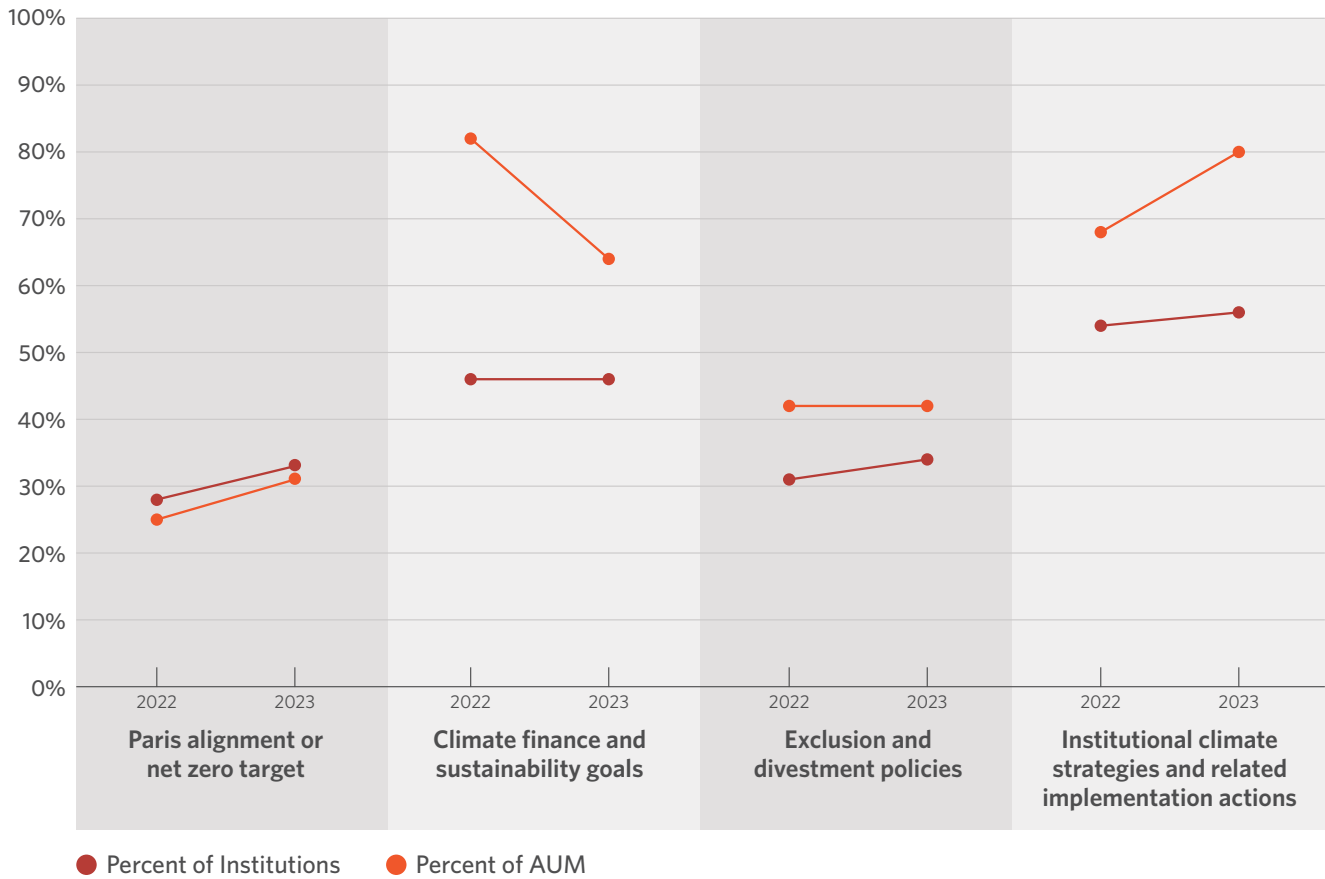
Examining PFIs' approaches, commitments, and actions related to climate finance can help to identify gaps and opportunities for further action. This is especially important in the context of ongoing multilateral development bank (MDB) reforms, which may have trickle-down effects on smaller financial institutions.

Since 2022, CPI has been tracking the commitments of the 70 largest PFIs covered by the Finance in Common Public Development Banks (PDBs) Database (Finance in Common, 2021; CPI, 2024). Our tracking covers mega, large, and medium-sized banks, which represent 94% of total assets under management (AUM) held by PFIs captured in the PDB database.

Our initial pilot exercise in 2022 found just 20 of the 70 PFIs, holding 25% of tracked AUM, to have net zero or Paris alignment targets (CPI, 2022a). The majority of these were MDBs, and many of the targets lacked specificity and were not supported by interim targets. CPI has now updated its tracking analysis of PFI commitments made in 2023 to evaluate whether any significant commitments were made following COP27 and to understand how frequently larger PDBs are making or updating their commitments.

## KEY FINDINGS

**Tracked commitments for 2023 show little change from the previous year.** New commitments were only found for two institutions, both of which had previously created climate strategies and goals. While these institutions deepened their climate action by setting net zero/Paris alignment targets, no movement was tracked from financial institutions who were not already engaged on climate.

**Figure ES1.** Share of tracked institutions with climate commitments

**Note:** In some cases, change in percent of AUM covered by climate commitments may reflect increases or decreases in the underlying reported AUM figures, rather than changes in adoption of climate commitments by institutions.

**To complement the commitment tracking exercise, CPI has also reviewed the climate strategies of 49 micro-to-medium PFIs in EMDEs to identify examples of best practices in PFI climate action.** The resulting case studies and analysis provide examples of how larger PFIs that have yet to act can overcome barriers and incorporate climate into their strategies and investment decisions.

The climate strategies of these smaller banks — selected across size, mandate, and various EMDEs — broadly suggest that mainstreaming of climate action does not correspond to institutional capacity and is instead most influenced by robust support from shareholder governments.

## RECOMMENDATIONS

1. Governments of countries with large or medium-sized PFIs that have not yet made climate commitments can implement strong Nationally Determined Contributions and support climate action in order to enable PFIs to develop climate strategies and make commitments.
2. Large and medium-sized banks that feel constrained on climate action due to capacity should look to the ambitious smaller banks for examples of how to maximize impact with fewer resources.
3. Additional analysis is needed on how to integrate climate considerations for PFIs with narrow mandates, particularly those working in high-emitting sectors.

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# INTRODUCTION

Public financial institutions (PFIs) provided about 52% of global climate finance in 2022, a proportion that has remained fairly steady over the past 10 years (CPI, 2023). The percentage provided by PFIs is even higher in many emerging markets and developing economies (EMDEs). For example, PFIs provide 89% of total climate finance in Sub-Saharan Africa and 61% in East Asia and the Pacific (CPI, 2023).

Given PFIs' significant role in deploying climate finance in EMDEs, examining their climate finance approaches, commitments, and actions can help identify gaps and opportunities for action. This is especially important in the context of ongoing multilateral development bank (MDB) reforms, which may have trickle-down impacts on smaller financial institutions, both public and private.

Since 2022, CPI has been tracking the commitments of the 70 largest PFIs in the Finance in Common Public Development Banks (PDBs) Database (Finance in Common, 2021; CPI, 2024). Tracked institutions are mega-, large-, and medium-sized banks, representing 94% of the total assets under management (AUM) held by PFIs covered by the database.

This exercise aims to help close the information gap on how PFIs mainstream climate considerations into their operations and governance. Our tracking is guided by a climate commitment taxonomy, which covers climate actions across four key dimensions:

- Paris alignment, net zero, carbon neutral, and other mitigation targets;
- Climate finance and sustainability goals;
- Exclusion and divestment policies; and
- Institutional climate strategies and related implementation actions.<sup>1</sup>

Our initial exercise in 2022 found that just 20 tracked PFIs, holding 25% of tracked AUM, had established net zero or Paris alignment targets (CPI, 2022a). Most of these were MDBs, and many had targets that lacked specificity and were not supported by interim targets (CPI, 2022).

We have updated this PFI tracking analysis for 2023 to evaluate whether any significant commitments had been made following COP27 and to better understand the frequency at which commitments were being made. The 2023 data revealed little change from the prior year, with no new entrants to the PFI climate action camp, and limited progress among those that had previously published climate strategies but not made commitments.

This report therefore aims to evaluate where medium and large national development banks — the most substantial group yet to take climate action — can be supported to do so. Given the lack of examples yielded by medium- to mega-sized institutions, we focus on the climate action of various PFIs with lower AUM than those covered by CPI's commitment tracker.

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<sup>1</sup> A full explanation of the taxonomy development and data collection methods are presented in the 2022 paper and accompanying methodology brief.



We explore how the variables of climate vulnerability, size, and mandate correspond to smaller institutions' level of climate action. Case studies and analysis of these smaller banks — selected across geography, size, and mandate — can inform how larger PFIs can overcome barriers and incorporate climate into their strategies and investment decisions.

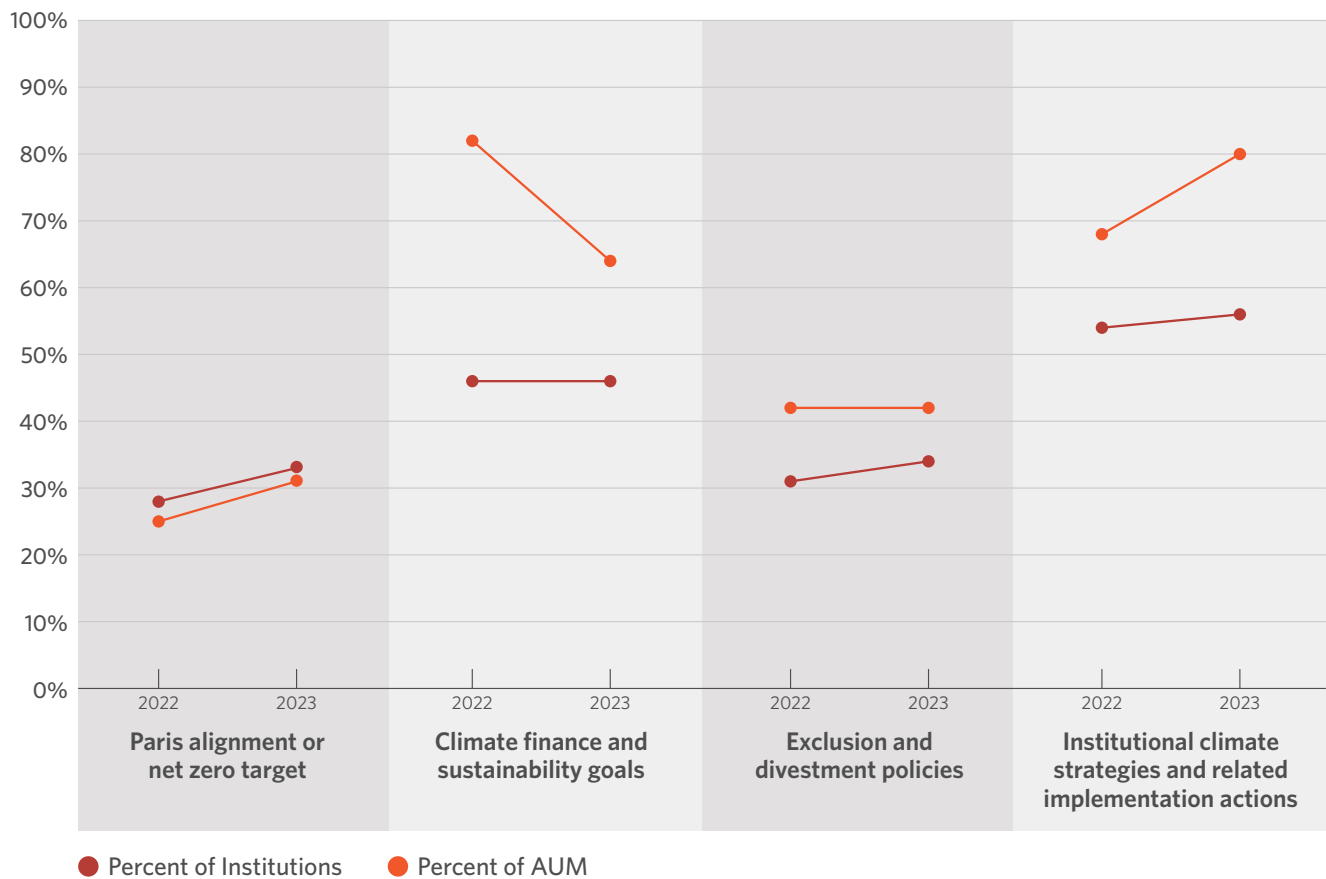
This paper is structured as follows:

- **Section 1** details the findings of the 2023 update to PFIs' climate commitments, including changes from the previous year.
- **Section 2** evaluates climate action among a set of smaller PFIs, examining how climate vulnerability, size, and mandate may impact climate commitments from these institutions.
- **Section 3** presents a set of case studies that demonstrate 1) current best practices, 2) an institution beginning to incorporate climate into its decision-making, and 3) an institution that has fully integrated climate into its mandate.
- **Section 4** concludes with recommendations on how large and medium PFIs can use similar approaches to those of the smaller PFIs studied to develop and support climate action and commitments.

# 1. COMMITMENT TRACKER UPDATE

The 2023 update to PFIs' climate commitments tracking reveals a minimal uptick in the adoption of climate commitments, with new action taken by just two tracked PFIs.<sup>2</sup> This raises the share of institutions with a Paris alignment or net zero commitment to 33% (from 28% in 2022), and the share of those with exclusion and divestment policies to 34% (from 31% in 2022). Commitments to climate finance and sustainability goals, and institutional climate strategies and related implementation actions remain unchanged, as shown in Figure 1.

**Figure 1.** Share of tracked institutions with climate commitments



**Note:** In some cases, change in percent of AUM covered by climate commitments may reflect increases or decreases in the underlying reported AUM figures, rather than changes in adoption of climate commitments by institutions.

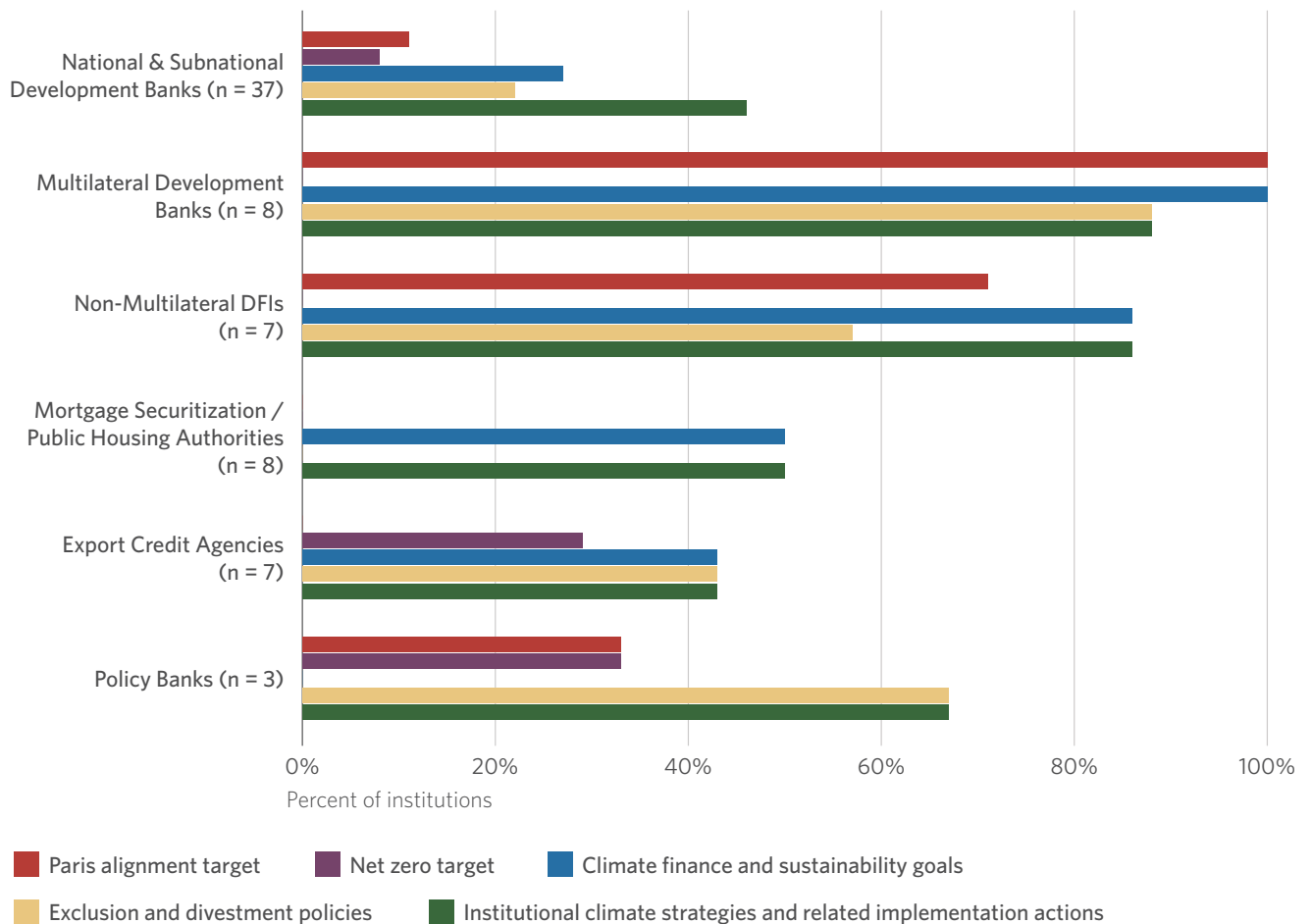
For reference, CPI's 2022 tracking of the 70 largest PFIs in the Finance in Common PDB Database found that just 20, holding 25% of tracked AUM, had established net zero or Paris alignment targets (CPI, 2022a). The majority of these were MDBs, with many of their targets lacking specificity or complementary interim targets.

<sup>2</sup> The updated data was collected to cover the period from August 2022 through August 2023 and reflects any commitments or strategies announced during that period.

The PFIs to have taken new action are two large NDBs — the Brazilian National Development Bank (BNDES, 2022) and the French Group Caisse des Dépôts (CDC Group, 2022).<sup>3</sup> These banks have published new climate-related strategies, commitments to Paris alignment, and/or net zero targets, consolidating their previous climate commitments — divestment and exclusion policies and climate finance goals — into more comprehensive and actional approaches to aligning with the Paris Agreement goals.

Given that NDBs have generally been slower to set concrete climate commitments than other types of PFI, these new frameworks provide potential models for peers. The BNDES Just Neutrality strategy provides a promising template for NDBs operating in EMDEs, particularly in terms of aligning bank operations to the relevant country's Nationally Determined Contribution (NDC). In addition, CDC Group's climate strategy may provide insights on operationalizing climate commitments for other PFIs that have multiple sub-entities with differing mandates.

**Figure 2:** Climate commitment coverage (%) across PFI type (as of August 2023)



<sup>3</sup> These commitments were both announced in late 2022, after the publication of the 2022 PFI commitments tracking report.

Despite the progress demonstrated by these two examples, the limited adoption of new commitments across tracked PFIs indicates a slow pivot toward the Paris Agreement goals. In particular, a major commitment gap remains at the aggregate level when comparing the practices of MDBs and development finance institutions (DFIs) of OECD countries to those of other tracked PFIs categories.

This gap indicates a concentration of climate efforts among a narrow segment of MDBs and DFIs, along with some NDBs. — while remaining PFIs continue to operate without a definitive climate strategy. While some PFIs with previously established (albeit limited) climate commitments (e.g., on divestment and exclusion, climate finance, or interim mitigation targets) are working to broaden their ambition to include overarching commitments towards Paris alignment and/or net zero emissions, tracked PFIs who had not yet taken action in 2022 shown little progress in setting even limited climate goals.

In light of the global scale and massive volume of climate finance needed to meet the Paris Agreement goals, it is imperative that the mainstreaming of climate action is expanded to encompass a wider array of PFIs across economic mandates, geographies, and sizes.

Accordingly, the remainder of this report examines the climate action of smaller PFIs in EMDEs, which are not included in our commitment tracking exercise. This review provides insight into the primary considerations of these institutions in developing climate frameworks, as well as their approaches to overcoming potential barriers.

Given that these institutions face varied challenges in terms of geography, climate vulnerability, and mandate, they may present learnings for larger PFIs seeking to develop and/or enhance their own climate strategies, as well as form climate finance partnerships with smaller EMDE institutions.

## 2. CLIMATE ACTIONS OF SMALLER PUBLIC FINANCE INSTITUTIONS

Our review of the climate strategies of 49 small-, micro-, and medium-sized PFIs operating in EMDEs examined annual reports, climate and sustainability reports, and bank websites. The sample consisted of banks of various geographies, sizes, and mandates to capture holistic perspectives on climate strategies across unique development contexts. The sample included banks from a variety of EMDEs, with the goal of covering the global variance of economic markets. Additionally, it includes various types of mandates, as categorized by the Finance in Common PDB Database, to determine how official mandates affect climate engagement.

We found sufficient publicly available information to enable a confident assessment of climate action for 23 of the sampled banks. There was inadequate information available for the remaining 26 PFIs (see Table 1).

**Table 1.** Level of climate engagement of sampled banks

Category	Description	Number
<b>Climate ambitious</b>	Institutions that have included climate as a key tenet of their work, mainstreamed climate throughout their investment decisions, and/or included climate as part of their institutional mission.	9
<b>Climate engaged</b>	Institutions that are actively providing climate finance streams and supporting counterparties on climate activities but have not mainstreamed climate throughout the institution.	8
<b>Climate acknowledged</b>	Institutions that have mentioned climate as a key risk going forward, and may have even suggested specific risks or opportunities associated with it, but do not provide climate-specific funding or a climate strategy in their public documents.	2
<b>No climate mention</b>	Institutions that do not mention or refer to climate-specific funding or a climate strategy in their public documents.	4

We assessed the climate vulnerability, size, and mandate of each of the 23 banks that had adequate information, and mapped these categories to their level of climate engagement. This analysis found areas of potential correlation as well as instances where no correlation is evident.

The below subsections discuss our findings across three categories and the potential learnings for PFIs' future climate strategies.



## 2.1 CLIMATE VULNERABILITY

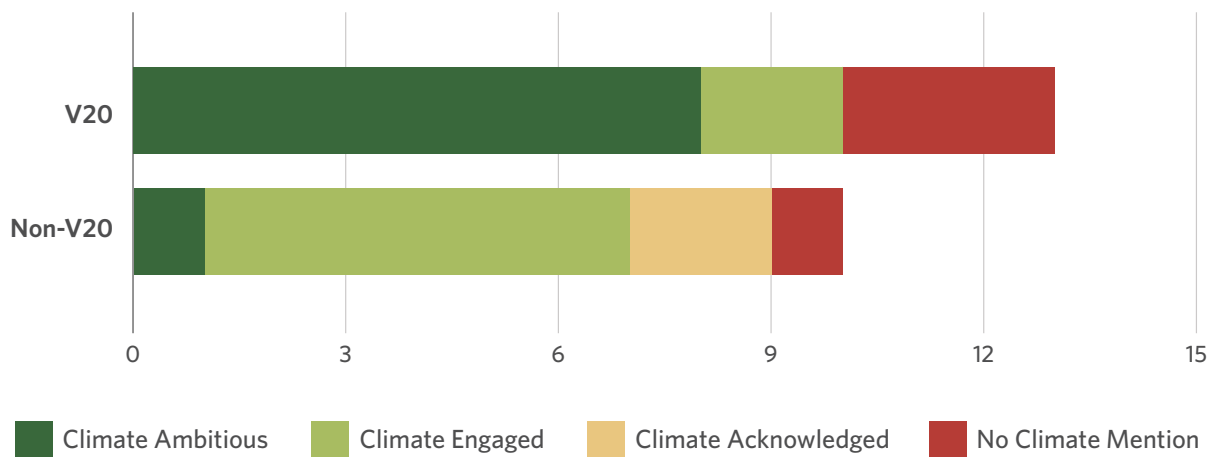
The first trend identified concerns climate vulnerability and the extent to which an institution is engaged in climate change. Two metrics are used as indicators of climate vulnerability: membership in the Vulnerable Twenty Group of Ministers of Finance of the Climate Vulnerable Forum (V20), a forum of countries self-identified as systemically vulnerable to climate change, and climate vulnerability scores from the Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index (2021), an open-source index that measures a country's vulnerability to climate-related disruptions<sup>4</sup>. These two sources yield different observations on the relationship between climate vulnerability and institutional climate engagement.

### V20 MEMBERSHIP

Given that V20 membership is made up of self-identifying climate-vulnerable countries (V20, 2023), this indicator highlights an important connection between government perception of climate vulnerability and PFI engagement on climate. CPI analysis found that a higher percentage of sample banks with V20 member countries are engaged in climate (76%) than banks without V20 members (60%), as shown in Figure 3. This effect is more pronounced for more ambitious climate strategies - seven of the eight PFIs in the climate-ambitious group include V20 member countries.

This indicates that PFIs can be influenced by governments explicitly prioritizing climate action, likely due to related factors such as these governments' implementation of top-down emissions reduction targets and involvement in international climate forums.

**Figure 3.** Level of climate engagement by V20 membership of 23 PFIs



### ND-GAIN COUNTRY INDEX

On the other hand, the ND-GAIN Country Index externally identifies the “propensity or predisposition of human societies to be negatively impacted by climate hazards” (ND-GAIN, 2021). The weighted average for each group was to account for differences in AUM to account for potential differences in technical capacity.

<sup>4</sup> The ND-GAIN Country Index is an open-source index that uses more than 40 indicators to measure a country's vulnerability to climate-related disruptions. The data and methodology are available on the ND-GAIN website: <https://gain.nd.edu/our-work/country-index/>

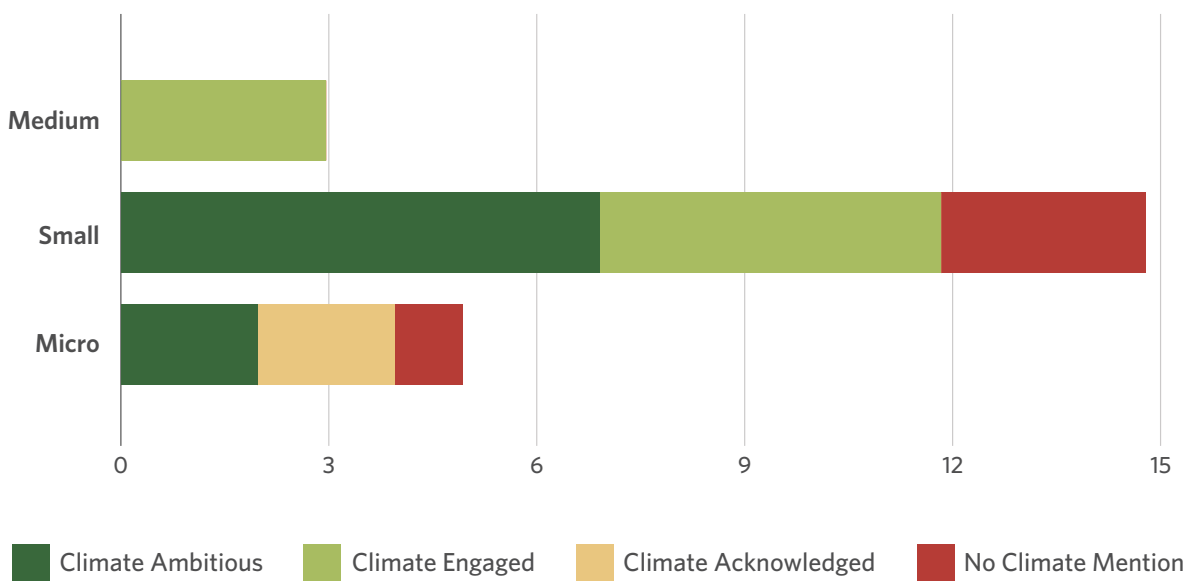
Our analysis finds statistically insignificant variations between the level of climate engagement and ND-GAIN Country Index ranking. While there are methodological constraints that limit the validity and application of these results, this suggests that there is no correlation between physical climate vulnerability and institutional climate engagement. This result is surprising, as it would be reasonable to expect the PFIs of more climate-vulnerable nations to have greater climate engagement to address related hazards.

Overall, banks in countries that self-identify as climate-vulnerable are much more likely to be engaged, and even ambitious, on climate action than those with high vulnerability levels determined by the external index. This indicates that national engagement on climate is a more important factor in determining institutional climate ambition than independently identified climate vulnerability. This emphasizes the importance of an enabling environment and political impetus in determining national climate and development priorities, and in turn, the agenda of PFIs.

## 2.2 SIZE BY ASSETS UNDER MANAGEMENT

The Finance in Common PDB Database categorizes PFI size as mega, large, medium, small, or micro, based on each institution's AUM. Our review of the additional banks covers 3 medium-, 15 small-, and 5 micro-sized banks.

**Figure 4.** Level of climate engagement by size of 23 PFIs



Size is often regarded as being a strong indicator of institutional capacity to act on climate. However, seven of the eight banks in our sample's climate-ambitious category were small, and the remaining bank was micro-sized. This could be indicative of greater ambition among smaller banks, or due to the fact that small banks make up 65% of our dataset.

Of the five micro banks - defined by finance in common as having total assets of equal to or under 500 million USD - included in our sample with enough information to determine their level of climate engagement, only one had no clear mention of climate risks, while two were categorized as climate acknowledged.

Two micro banks were categorized as climate-ambitious: Nepal Infrastructure Bank and the Foundation for Sustainable Development in Costa Rica. Each have been proactive in climate action, operating within their respective mandates (INFRA and MSME) to integrate climate considerations into daily operations. Although the former has only USD 205mn in AUM, the bank has mainstreamed climate impact metrics for various sectors. Similarly, the Foundation for Sustainable Development envisions climate as a major pillar of their institutional operations, engaging in climate through extensions for sustainable agriculture in indigenous and other communities, support for public infrastructure resilience initiatives, adaptation initiatives for coastal areas, and more. Seemingly, capacity has not been an insurmountable barrier to each of these banks engaging in climate action domestically.

## 2.3 MANDATES

A bank's mandate reflects its mission to fulfill a particular public policy and dictates its activities. While mandates are not all-encompassing categorizations, PFIs with different sectoral mandates can be considered as examples of their respective sectors, enabling us to make inferences from the resulting data.

Banks in our sample were categorized under the eight mandates, as per the Finance in Common PDB Database methodology (see Table 2).

**Table 2.** Public finance institution mandates and descriptions

Abbreviation	Mandate	Description	Number
AGRI	Rural and Agricultural Development	Support to the agricultural industry and small-scale farming	5
EXIM	Promoting Exports and Foreign Trade	Support to domestic and international trade	4
FLEX	General Development	"Support social, economic, and environmental development without confining their missions to specific sectors or clients"	5
HOUS	Social Housing	Support in financing buildings or housing, primarily for underserved populations	0
INFRA	Infrastructure	Support in the financing of infrastructure	4
INTL	International Financing of Private Sector Development	Support in financing private or public companies, rather than sovereign governments	3
LOCAL	Local Government	Support to municipalities, states, and local governments	0
MSME	Micro, Small, and Medium-Sized Enterprises	Support in financing micro, small, and medium-sized enterprises	2

Our analysis of data from the Finance in Common PDB Database on the mandates of 23 banks found several important observations. Since these mandates represent institutional public policy missions, these conclusions can inform how PFIs in each sector can integrate climate considerations into their operations.

## GENERAL DEVELOPMENT (FLEX)

Five of the 23 sample banks have FLEX mandates, with four categorized as climate-ambitious and one as climate-engaged. The high climate ambition of FLEX-mandated banks analyzed could result from this being the largest mandate by AUM and number of banks in our sample, or may be due to the wide scope of FLEX-mandated banks, given that they are not focused on a single sector or commercial activity.

Interestingly, those banks without a strict mandate are the most climate-engaged. This highlights the need for further analysis and guidance on mainstreaming climate considerations, particularly concerning banks with mandates that are sectoral specific or predate general development banks.

## RURAL AND AGRICULTURAL DEVELOPMENT (AGRI)

Five of our sample banks have AGRI mandates, with one categorized as climate-ambitious, two as climate-engaged, one as climate-acknowledged, and one as having no climate mention.

AGRI is often considered to be the most highly climate-related mandate, given the significant effects of climate change on environmental conditions, the volatile nature of agricultural production in developing countries, and the potential for emissions reductions in the land-use sector (CPI, 2022b). In most developing countries, the agricultural industry primarily is made up of smallholder farmers, who form one of the world's most climate-vulnerable groups. It is therefore reasonable to expect that the agricultural sector could be an avenue for smaller, non-traditional PFIs to engage in climate action within their mandates.

The Cooperative and Agricultural Credit Bank of Yemen (CAC) and the Agricultural Bank of Peru (Agrobanco) engage in climate differently. Reasons for their level of engagement on climate may include regional climate progress, capacity levels, or institutional climate literacy. Agrobanco, the bank with the second-smallest AUM among our sampled banks, is very small institution and does not engage heavily on climate, as it may have a limited mandate within the Agricultural sphere and inadequate technical resources to engage on climate. Meanwhile, CAC supports farmers against drought without explicating the related climate benefits or impacts. The varying level of regional climate action in the Middle East makes it less likely that individual banks would be able to effectively classify and label their climate action.

On the other hand, the lone climate-ambitious AGRI bank, the Agricultural Credit of Morocco (CAM), partnered with the Agence Française de Développement to launch a climate-oriented program to incentivize agricultural and agro-industrial actors to engage in a green transition of their sectors.

The contrast between these examples highlights the breadth of climate action of AGRI banks in emerging economies and their potential need for external support, as it can be difficult for a sole national entity to transform the sector. These observations point to several areas that could be improved to effectively build and implement a climate strategy, including capacity, regional climate action landscape, presence of international partnerships, and climate literacy.

## INFRASTRUCTURE (INFRA)

Four banks in our sample have INFRA mandates, with two categorized as climate-ambitious, one as climate-engaged, and one with no climate mention.

The INFRA mandate presents challenges due to large project size and volume of financing, and typically heavy fossil fuel reliance of its projects. Notably, the role of infrastructure banks has evolved over time, from providers of long-term finance for public infrastructure to active supporters of renewable energy and green transitions. The extent to which each individual infrastructure bank has taken up these duties varies, but supporting the architecture of a green transition has seen widespread challenges. Nevertheless, three infrastructure banks within our sample set are active on climate, one of which is climate-ambitious.

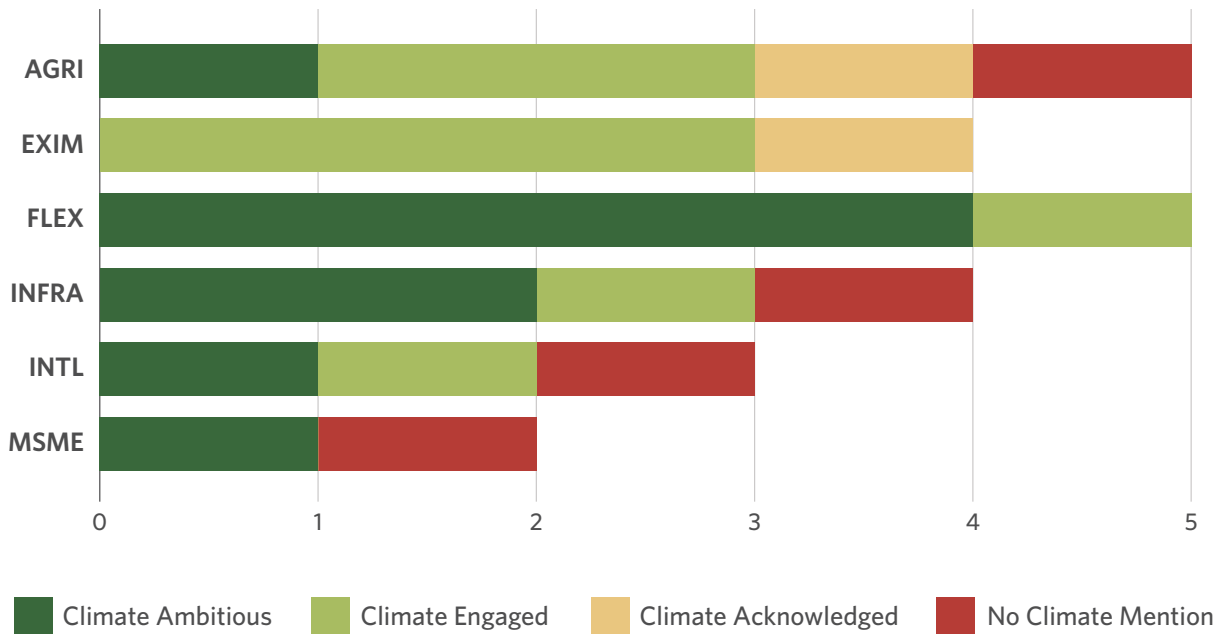
The Nepal Infrastructure Bank, one of the climate-ambitious INFRA banks, has been particularly active in incorporating climate resilience into all stages of its project pipeline. The bank's Climate Risk Mitigation and Adaptation Guidelines (2023) aim to ensure its infrastructure interventions consider climate risks and bolster resilience where possible. Scope, climate risks assessment, and impacting reporting are described in detail, providing impact metrics across seven project sectors such as clean transportation, renewable energy, and sustainable water management.

The climate-engaged INFRA bank in our sample is REC Limited (formerly the Rural Electrification Corporation) in India, which provides long term loans and other financing products for the creation of energy infrastructure assets in India. Although REC Limited's explicit sector focus narrows the potential volume of its impact compared to the Nepal Infrastructure Bank, it supports India's national renewable energy targets through competitive financing for clean energy projects, including solar, wind, and biomass. During the financial year 2021-2022, REC sanctioned about USD 1.99 billion toward 15 renewable energy projects with an aggregate generation capacity of 1,609 MW (REC, 2022).

There are multiple angles from which INFRA banks can engage in climate while fulfilling their mandate. Furthermore, there are significant differences between institutions mainstreaming climate and institutions contributing to climate action, as evidenced by our climate-ambitious and climate-engaged groupings. While REC Limited provides clear contributions to achieving India's NDC, the Nepal Infrastructure Bank has devoted considerable time and effort to developing climate impact metrics that reflect the span of its operations. These banks display two pathways toward climate engagement for INFRA banks to take lessons from. Summary

The other mandates in the sample span the breath of climate action as shown in Figure 5.



**Figure 5:** Level of climate engagement by bank mandate of 23 PFIs

Given the small sample size in this evaluation, the finding that banks with broader FLEX mandates tend to have higher climate ambition is not an exhaustive conclusion, however, it does provide an initial indication of the influence that mandates can have on climate engagement. While general economic development is an area that has largely incorporated climate finance into decision making, banks with specific client needs may require additional information on the most effective ways to expand, or begin, their climate-related activities. Structuring these solutions requires further research and guidance to support effectively integrating climate into existing mandates and bolstering legislative momentum to include climate in banks' priorities.

## 3. CASE STUDIES

To offer lessons and recommendations for banks at different stages of integrating climate considerations in their operations, we present case studies examining the climate strategies of three banks with different characteristics. The first illustrates best practices; the second presents a bank beginning its work on climate; and the third highlights incorporation of climate action from a PFI with a challenging mandate.

### 3.1 BEST PRACTICE: CARIBBEAN DEVELOPMENT BANK

<b>Region</b>	Caribbean
<b>Mandate</b>	General Development (FLEX)
<b>AUM</b>	USD 2,217 million
<b>FIC size category</b>	Small
<b>V20 membership</b>	Yes
<b>ND-GAIN vulnerability index ranking<sup>5</sup></b>	100 <sup>th</sup>

The Caribbean Development Bank (CDB) is a regional development bank that acts as an advocate of ambitious climate action for its member states. Given the climate vulnerability of the region, present and future climate impacts pose a significant threat to numerous Caribbean lives, regional economic activity, and the functioning of institutions. Recognizing this, CDB has committed to and fulfilled ambitious climate targets.

In December 2022, it achieved full alignment with the Paris Agreement and has achieved its 2024 climate initiative target for 25% to 30% of projects to be climate related, currently at 25.2% of total projects (CDB, 2022). In striving for these goals, CDB has positioned itself as a key regional facilitator of climate adaptation and mitigation financing from international partners, collaborating with organizations including the Green Climate Fund, Agence Française de Développement, and the Adaptation Fund. These investments have made significant progress on climate action in the region through initiatives like the Caribbean Action for Resilience Enhancement Program, GCF Project Preparation Facility, and several capacity-building efforts.

The combination of climate vulnerability, global advocacy, partnership seeking, and a proven ability to deliver on investments has led to significant success in climate action and emissions reductions. CDB has achieved an impressive level of climate engagement and provides an example for other PFIs to fiercely advocate for climate action, create partnerships with international donors, and deliver on climate projects.

<sup>5</sup> The ND-GAIN Index uses vulnerability ratings to rank 185 countries from least climate-vulnerable to most climate-vulnerable. The higher the number, the more climate-vulnerable the country. This ranking is calculated using the average of the vulnerability ratings of borrowing members of each bank.

### 3.2 FIRST STEPS ON CLIMATE ACTION: ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT

<b>Region</b>	Middle East and North Africa
<b>Mandate</b>	General Development (FLEX)
<b>AUM</b>	USD 13,312 million
<b>FIC size category</b>	Small
<b>V20 membership</b>	Yes
<b>ND-GAIN vulnerability index ranking</b>	113 <sup>th6</sup>

Given the narrow involvement of Middle Eastern and North African countries in climate finance, it is notable that the Arab Fund for Economic and Social Development (AFESD) has begun to organize regional actors to cooperate on climate action. In 2020, AFESD launched the Green Projects Program, which aims to enact a green transition in the region by supporting existing and future projects that reduce negative environmental impacts and carbon emissions. Through this program, low-income Arab countries can access concessionary loans, competitive finance, and grants for feasibility studies and capacity-building for green projects.

AFESD organized the first Arab Conference for Cooperation on Climate Change in May 2023, to strengthen inter-Arab dialogue and cooperation, mainstream the use of green financial instruments, and form joint Arab initiatives on climate change (AFESD, 2022).

Although it began recently, AFESD has been actively seeking to catalyze regional climate action through financing and inter-state coordination. Considering the region is still early in its climate journey, these efforts are extremely valuable in forming a stable foundation upon which intra-region climate progress can be built.

### 3.3 INCORPORATING CLIMATE INTO MANDATES: PT SARANA MULTI INFRASTRUKTUR

<b>Region</b>	Southeast Asia
<b>Mandate</b>	Infrastructure (INFRA)
<b>AUM</b>	USD 8,044 million
<b>FIC size category</b>	Small
<b>V20 membership</b>	No
<b>ND-GAIN vulnerability index rating</b>	103 <sup>rd</sup>

6 This ranking was calculated using the average vulnerability rating of member countries of AFESD.

As the lone climate-ambitious INFRA bank in our sample, PT Sarana Multi Infrastruktur (PT SMI) presents an interesting example for INFRA banks to increase their climate engagement. Although INFRA banks face obstacles of volume, duration, and uncertainty related to project implementation and financing, PT SMI has integrated climate mitigation and adaptation into its mandate. Guided by its NDC targets, the Indonesian government has positioned PT SMI as a key facilitator of blended finance for infrastructure projects that align with the Sustainable Development Goals (SDGs).

In 2018, PT SMI helped launch SDG Indonesia One, a funding collaboration platform meant to increase access to funding for strategic projects, mobilize support from the private sector, and reduce the government's fiscal burden of SDG-oriented projects (PT SMI, 2022a). PT SMI has also been appointed as the country platform manager of Indonesia's Energy Transition Mechanism, a framework to provide financing to accelerate the national energy transition, by mobilizing commercial and non-commercial funding sources in a sustainable manner (PT SMI, 2022b).

Notably, PT SMI's facilitation of Indonesia's sustainable development agenda strengthens the institution's legitimacy on the international stage. Its success with the above programs is likely to increase the confidence of private and public partners to finance future projects. As of December 2022, Indonesia SDG One had supported 62 blended finance projects and 53 ecosystem enabler activities, generated USD 3.19 billion in commitments, and formed relationships with 35 strategic partners (PT SMI, 2022a).

PT SMI also continues to set and reevaluate its own climate financing goals, aiming to increase ambition in each iteration of its five-year plan. When considered in conjunction, these factors provide a template for infrastructure and other mandates to integrate and scale climate interventions in their operations.

## 4. CONCLUSION AND RECOMMENDATIONS

**Given their crucial role in driving climate investment in EMDEs, there is an urgent need for PFIs of all sizes to increase their climate finance flows and fully incorporate climate into their investment decisions.** A significant number of tracked PFIs, particularly medium-sized NDBs, have not yet integrated this topic into their operations.

Below, we present key lessons from our review of climate commitments of smaller PFIs and recommendations on how these findings can help PFIs to advance their own climate engagement.

**Government engagement is a key indicator of climate action.** PFIs from V20 member countries in our sample tended to have higher climate engagement. The level of engagement of governments on climate action is likely the key determinant of a PFI's climate ambition. The importance of an enabling environment to support climate finance cannot be overstated, be it at a regional, national, or sub-national level. Such support can empower PFIs to leverage their sectoral expertise for investments and strategies integrating climate. For example, PT SMI has taken steps on climate in part due to the country's ambitious national climate goals.

### RECOMMENDATION 1

Governments of countries with large or medium-sized PFIs that have not yet made climate commitments can integrate PFIs into long-term climate strategies and NDCs to enable them to support climate action.

**PFI size does not appear to constrain climate engagement.** Findings of strong climate commitments among smaller PFIs in our sample challenges the perception that a lack of capacity prevents small institutions from engaging on climate. Some outliers' climate efforts may be affected by capacity - the Pacific Islands Development Bank, which did not mention climate, had just USD 15 million in AUM in 2021, which amounts to only 17% of the AUM of the next smallest PFI in the set. Otherwise, PFIs with low AUM performed similarly in terms of climate commitments as larger PFIs, pointing to the presence of other factors influencing institutional climate engagement.

### RECOMMENDATION 2

Large and medium-sized banks that feel constrained on climate due to capacity should look to the ambitious smaller banks for examples of how to maximize impact with fewer resources.



**Further analysis is needed to fully understand the best way to integrate climate into PFIs with specific or narrow mandates.** Certain mandate types may be more conducive to mainstreaming climate considerations, but there are clear examples of banks with across mandates that have succeeded in this. Two main strands of research on mandates merit attention: integrating climate within the boundaries of a mandate and bolstering legislative support for climate engagement of PFIs. Together these projects will illuminate paths forward for institutional climate engagement, regardless of mandate.

### RECOMMENDATION 3

Additional analysis is needed on how to integrate climate considerations for PFIs with narrow mandates, particularly those working in high-emitting sectors.

Our findings show that there are smaller PFIs integrating climate into their operations and investment decisions across mandates, although there is no clear climate trend associated with non-FLEX mandates. As such, additional research is likely needed to assess how to best integrate climate considerations into narrow mandates that may not easily lend themselves to positive climate impacts, particularly if the banks are simultaneously facing capacity constraints. Furthermore, PFIs without established climate commitments should aim to leverage further support from the legislative and executive branches of government in order to develop an institutional framework for mainstreaming climate action.

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