International Development Finance Club

IDFC

Contribution to the UNFCCC Post-2025 Climate Finance dialogues

29/11/2023



SUBJECT

Inputs for:

1- the ad hoc work program on the **New Collective Quantified Goal on Climate Finance (NCQG)** and related Technical Expert Dialogues[1];

2- the **Sharm el-Sheikh dialogue** to exchange views on and enhance understanding of the scope of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement[2].

CONTEXT

The Paris Agreement (Article 9) and related COP21 decisions request the setting up, prior to 2025, of a **New Collective Quantified Goal (NCQG)** on climate finance, from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries. Parties and non-Party stakeholders, including climate finance institutions and other stakeholders, are invited to submit inputs on the technical expert dialogues to be held as part of the ad hoc work program on the NCQG.

Additionally, under the framework of COP27, the **Sharm el-Sheikh dialogue** between Parties, relevant organizations and stakeholders was launched, with the aim of exchanging views on and enhancing understanding of the scope of **Article 2, paragraph 1(c), of the Paris Agreement** about making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development[3], and its complementarity with Article 9 of the Paris Agreement.

In this context, **the International Development Finance Club, IDFC**, the leading group of 26 national and regional Public Development Banks (PDBs) from all over the world, representing the **largest provider of public development and climate finance globally**, with US$ 4 trillion in combined assets and annual commitments above US$800 billion, including more than **US$ 200 billion per year of climate finance (US$ 282 billion in 2022)**, is honoured to provide the following **inputs to both the NCQG deliberations and the Sharm el-Sheikh dialogue**.

1. Evolution of climate finance – stocktaking more than a decade of action Beyond volumes: mainstreaming and alignment

The current deliberations in the framework of the climate change negotiations are about setting a new, scaled up and impactful post-2025 financial regime for climate action, on par with both the magnitude of the mitigation, adaptation and loss and damage agendas and the urgency to act.

This regime will most certainly frame for many years the overall climate finance architecture. It will also influence the mandates, strategies and activities of a large number of international, regional and domestic financial institutions, public and private, from developed and developing countries.

As this future regime is being discussed and designed, it proves vital to analyze the evolution of climate action of financial institutions over the past years and take stock of its current state of play and perspectives. The following paragraphs provide insights onto these topics, based among others on the accumulated experience of IDFC and its members in their journey to become not only the major provider of climate finance worldwide, but also committed promoters of climate mainstreaming within financial institutions and the alignment of finance with the Paris Agreement.

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[1] decision 5/CMA.4
[2] decision 1/CMA.4, paragraph 68
[3] Article 2, paragraph 1(c) of the Paris Agreement aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by (…) making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The past decade has seen a substantial evolution of the objectives and scope of climate action within leading Public Development Banks (PDBs) and other financial institutions. Initially, PDBs had a relatively narrow and mostly quantitative focus on volumes of financing characterized as climate finance. Later, the focus evolved to a more comprehensive climate mainstreaming approach, and, in the past few years, to a more ambitious and encompassing Paris alignment approach.

"Doing good things": climate finance volumes

Early on, during the period of 2010-2015, efforts by PDBs engaged in climate action focused on scaling up **volumes of climate finance** dedicated to mitigation and adaptation, and on tracking and reporting on them. This led among others to the adoption by many PDBs of quantitative targets for climate finance, as well as the elaboration by IDFC and the MDBs of common principles for tracking climate finance, which were first published in 2015. These are regularly updated and improved[4]. Implementing common approaches for tracking and reporting financial flows that support climate change mitigation and adaptation was necessary, not only to build trust and accountability with regard to corresponding commitments, but also to monitor trends and progress in the mobilization of financial resources for climate-related investment[5]. However, at that time, the volumes of climate finance tracked essentially referred to project-centered mitigation or adaptation investments, regardless of countries' long-term visions towards low carbon and resilient development, in line with Paris agreement objectives, as most of them were not defined yet.

"Doing things right": climate mainstreaming

This exclusive attention on climate finance volumes, although necessary, was not sufficient to address the ambition and match the implementation requisites of the Paris Agreement. The climate implications of the remainder of PDBs' and other financial institutions' portfolios were also important. In other words, it was about ensuring that whole portfolios – not just their climate-finance portion – are supportive of and never undermine the objectives of the Paris Agreement. This prompted a shift towards **climate mainstreaming**.

The term "climate mainstreaming" describes the process of integrating climate change considerations into all aspects of a financial institution, in line with the just transition context and challenges of each country. It implies a shift from financing climate activities in an incremental manner, to making climate change – in terms of both opportunities and risks – a core component and a lens through which institutions conduct business and allocate capital. It looks beyond direct climate finance to consider the climate-related implications of all of a financial institution's activities.

Many financial institutions, including IDFC members, have championed the concept of climate mainstreaming. In 2015, under the framework of COP21 in Paris, a group of public and private financial institutions that included a large number of IDFC members launched the Mainstreaming Climate Action in Financial Institutions initiative and endorsed its 5 voluntary Principles[6]. The initiative has grown since then, with more than 50 financial institutions as well as prominent networks of PDBs (ALIDE, ADFIAP) now supporting and benefiting from it. The initiative helps navigate the sometimes complex integration of climate change in all aspects of an institution, as it depends on the sectors financed and their challenges to align with the Paris Agreement. The initiative also facilitates the development and implementation of concrete climate mainstreaming approaches within the institutions.

"Doing the right things": climate alignment

In 2015, the adoption of the Paris Agreement and its long-term goals, further strengthened the call to the financial community, including PDBs, regarding their contributions to climate action. The Agreement's strong expectations regarding finance, including regarding increased climate finance volumes and through its Article 2, paragraph 1(c) on making finance flows consistent with

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[4] See for instance: MDB_IDFC_mitigation_common_principles

[5] Since 2011, IDFC publishes on a yearly basis a detailed mapping of member institutions' green and climate finance contributions. The latest report covering 2022 data is available here

[6] 1. Commit to climate strategies / 2. Manage climate risks / 3. Promote climate smart objectives / 4. Improve climate performance / 5. Account for your climate action

a pathway towards low greenhouse gas emissions and climate-resilient development, reflect the systemic importance of the financial sector in the corresponding country-led paradigm shifts in development models.

In this context, the necessity of responding fully to the expectations of the Paris Agreement vis-à-vis financial stakeholders, or **aligning finance with the Paris Agreement**, including its long-term goals, has emerged since 2015 as a new frontier for increasing climate action ambition and has since become a leading theory of change across the entire financial system. The concept includes but also goes beyond the fundamental need to substantially increase climate finance volumes and mainstream climate within financial institutions' strategies, activities and operating modalities. It integrates the fact that - beyond assets, projects, investment portfolios and individual organizations - counterparts, entire financial chains and, ultimately, the financial system as a whole, will need to be consistent with long-term net zero and climate-resilient pathways of the countries. It is also about ensuring that public financial institutions have a lever effect regarding the redirection of flows of finance outside their own. Ultimately, Paris alignment for national authorities and public financial institutions it is about paving the way for the climate- and SDG-reorientation of the US$ 20 Tn of global annual financial flows for new investment, as well as that of the US$ 500 Tn stock of existing capital towards compatible assets and entities.

PDBs have been working on Paris alignment for a number of years. In 2017, at the One Planet Summit, IDFC and the MDBs made a joint commitment to « align financial flows with the Paris Agreement »[7]. In 2018, IDFC members spelled out their understanding of Paris alignment[8], and later commissioned two studies[9] led by prominent international think tanks to refine and help operationalize the concept. The MDBs released in 2018 their Paris alignment approach[10] with subsequent updates, and other networks such as the EDFIs also committed to align all new financing with the objectives of the Paris Agreement.

In 2019, IDFC launched its Climate Facility with the objectives of assisting members to not only increase their volumes of climate finance, but also accelerating the engagement of PDBs in contributing to the achievements of Paris Agreement goals. Through a set of activities around knowledge sharing, capacity building and practical tools, the IDFC Climate Facility strives to translate IDFC's global commitments into practical activities that PDBs may more easily appropriate and use in their daily business.

In 2021, IDFC committed in its State of Ambition to promote and finance investment to support countries to reach carbon neutrality as soon as possible, and in particular to end the provision of international public finance for new unabated coal power generation abroad by the end of 2021. IDFC has accumulated first-hand experience regarding the operationalization of alignment. It emerges as a context-dependent process about continuously improving:

(i) the adoption of a comprehensive scope of action, including the screening of all activities financed for positive or negative climate impacts;
(ii) the integration of the long-term goals of the Paris Agreement in near-term actions, so as to avoid the lock-in of countries or sectors in emissive or non-resilient pathways; and
(iii) an ambitious scale of contribution, in terms of volumes, quality and impact, aligned with countries' low carbon and resilient pathways and priorities, including a do no harm position, the fostering of Paris-consistent climate co-benefits, as well as pro-active support for deep transformations of economic systems, value chains and related stakeholders.

Recently, at the 4th edition of the Finance in Common Summit held in September 2023 in Colombia, a coalition that gathers all (500+) PDBs of the world, representing more than 10% of global public and private financial flows , IDFC adopted a framework for the implementation of SDG alignment of PDBs. The framework comprises concrete elements for SDG alignment implementation at three different levels: (1) entity (policies and strategies, human resources and

[7] Joint IDFC MDB Statement: "Together Major Development Finance Institutions Align Financial Flows with the Paris Agreement" 2017
[8] IDFC Position Paper on Aligning with the Paris Agreement
[9] CPI/I4CE Study "Aligning with the Paris Agreement" 2019; I4CE/NCI Study: "Operationalization Framework on Aligning with the Paris Agreement" 2021
[10] Joint Declaration MDBs Alignment Approach to Paris Agreement COP24

incentives), (2) operations (processes and tools, products and services, accountability) and (3) external partners (mobilization of stakeholders).

All in all, looking back at more than a decade of climate action, IDFC and its members have reached today a stage where they seek to combine and synergize the mobilization of scaled-up financial resources for climate-co benefits ("doing good things"), the mainstreaming of climate considerations across their organizations ("doing things right"), and an overall alignment with the Paris Agreement ("doing the right things").

2. Making finance work for climate: the need for a systemic and conducive approach
Elements for consideration by the NCQG deliberations and the Sharm el-Sheikh dialogue

IDFC's journey of constantly advancing climate, biodiversity and SDGs commitments and action is guided by the following standpoints:

- **IDFC and its members consider the objective and necessity to make worldwide financial capital and flows compatible with climate, biodiversity and the SDGs as a guidepost**. This necessity is already recognized on climate aspects by Art. 2.1.c of the Paris Agreement, in the Sendai Framework on Disaster Risk Reduction through Part 3 and in the Montreal/Kunming Global Biodiversity Framework through its Goal D, and is making its way into the SDGs as a whole.
- **PDBs, including IDFC members, have a unique and crucial role to play in efforts to shift global finance towards a climate-smart and sustainable future**. With their public mandates and roots in their respective economic and social fabrics, PDBs are well placed to enable strong interconnections between governments, regulators and the private sector; between domestic and international agendas; between global liquidity and microeconomic solutions; and between short-term and longer-term priorities.
- **PDBs such as IDFC members want to do more and there is an urgent need to fully tap their potential** to reinforce the level and relevance of their activities, for them to play an increasingly catalytic role as climate and SDG action *enablers*, on top of being climate and SDG investment *takers*. It is about further mobilizing their capacities to synergize all public and private financial stakeholders and redirect financing flows towards activities that are vital to the transition towards low carbon and climate-resilient economies, including disaster risk reduction, in line with countries' strategies and action plans and in support of international initiatives.

In this context and based on its experience and perspectives, **IDFC proposes the following elements for consideration by the NCQG deliberations and the Sharm el-Sheikh dialogue**. They refer to the need to:

A. **Adopt a comprehensive approach, aiming at accelerating the alignment of the entire financial system with the Paris Agreement while contributing to climate finance, consistently with countries' differentiated contexts, policies and long-term strategies.**

   This would entail among others:

   - On volumes and allocation of finance, designing the NCQG consistently with the overarching goal of Art. 2.1.c of the Paris Agreement, by combining considerations on the urgent provision of climate- and climate-aligned finance at the scale required, as well as its quality and impacts. It is about embracing the imbricated and complementary challenges of (i) dramatically increasing volumes serving low carbon and resilient pathways as well as loss and damage, including by (ii) reorienting existing financial capital and flows, which remain largely inconsistent with countries' just transition and development pathways, while (iii) delivering climate finance that is explicitly dedicated to generating transformational impacts.
   - On financial architecture, fostering collaboration between all stakeholders involved (governments, regulators, PDBs, private financial institutions, civil society organizations, etc.), at all levels (sub-national, national, regional, international and

multilateral), to promote optimal use of their different added values and complementarities, as well as the leverage potential of, among others, multilateral and international institutions.

B. **Contribute to a corresponding incentivizing framework.** The design of the NCQG and the future financial regime for climate action represents a unique opportunity to provide incentives for the mobilization of more - and higher quality - public and private climate funding, as suggested above. Several avenues could be explored, among others:

- The integration of (ex-ante) "transformational potential" criteria in the valorization of different types of climate finance provided, so as to combine quantitative and qualitative aspects.
  - This proposal echoes IDFC's Framework for the implementation of SDG alignment of PDBs and the importance of assessing ex-ante direct and indirect impacts and their magnitude, in line with countries' contexts and long-term strategies, to guide decisions and ensure their monitoring.
  - Criteria characterizing financial climate action with high transformational potential would need to be apprehended more precisely than they are today. Based on its vast experience, IDFC stands ready to submit more detailed proposals in this regard.
  - Examples of financial climate action with high transformational potential could include among others building or reinforcing individual and collective capacities in support of country-driven long-term strategies, policies, regulations, action plans; financing modalities and measures with respect to both mitigation and adaptation[11], or that integrate nature conservation and biodiversity, and/or that contribute to just transitions; facilitating the alignment of counterparts and financial chains; and/or supporting the design and implementation of activities with systemic scope.
  - Given the catalytic role of PDBs, in particular national and sub-national PDBs, which play a key function in supporting country strategies and policies; in linking corresponding needs and financial resources; in deploying diverse and innovative instruments tailored to local contexts, with debt sustainability in mind; and in greening domestic financial sectors, high transformational potential climate financial action could also relate to:
    - ways and means to increase and leverage the capital base and financial capabilities of PDBs at scale, parallel to the strengthening of their climate alignment mandates and the adoption of incentivizing policies and regulations; this proposal echoes regular calls[12] by PDBs to governments and regulatory entities;
    - the allocation to PDBs of more concessional resources at an affordable cost, and the facilitation of accreditation, access to and implementation of resources from key multilateral funds such as the GCF or the GEF, if proper standards and procedures are satisfied[13];
    - support to capacity building and technical assistance, such as the IDFC Climate Facility, to improve strategic and implementation capabilities of PDBs for climate-related action, among others in terms of monitoring and evaluation mechanisms; mainstreaming of climate adaptation, resilience and risk; integration of nature and biodiversity in climate action; development of corresponding tools and financial instruments (guarantees, debt swaps, securitization, other risk-sharing and innovative instruments); and/or preparation of transformational climate policies, programs, projects and activities.

[11] As called for, among others, by Art. 9, paragraph 3 of the Paris Agreement, and its accompanying decision 1/CP.21, paragraph 53.
[12] such as those of the Joint Declaration of All Public Development Banks in the World and subsequent statements released in the context of the Finance in Common Summits
[13] call also made by the Finance In Common Summit 2023- Final communiqué

- The setting up of accountability frameworks related to the future climate finance regimes that:
  - build on existing approaches such as the Common Principles on mitigation and adaptation promoted by the IDFC and the MDBs and others; and
  - encourage a financial industry-wide adoption of relevant practices for the characterization of both quantitative and qualitative aspects of climate investments and action, including in terms of transformational potential, as well as regarding finance aligned with low carbon and resilient development in countries; such common practices should factor in the possibility to tailor and adapt them to local contexts so as to increase efficiency and scale of collaboration.

PDBs have a huge potential to support the implementation of the Paris Agreement on climate. IDFC and its members, as the largest providers of public climate finance worldwide and leading contributors to the alignment of the financial system with climate, biodiversity, disaster risk reduction and the SDGs, are entirely mobilized and committed to support a successful design and implementation of the future financial regimes for climate action discussed in the context of the UNFCCC.

Leveraging its vast practitioner experience, IDFC and its members are fully available to further contribute to the corresponding technical dialogues and working groups in their various dimensions. This comprises helping to better **identifying, incentivizing and mobilizing, across the global financial system, the types of finance - public and private, from developed and developing countries - that can best serve the ultimate goals of the Paris Agreement,** including its Art. 2.1.c, in line with countries' contexts and priorities. As stated above, beyond the necessary scaling up of ***traditional climate finance***, this entails developing a better and more coherent characterization of ***climate-aligned finance*** as well as of ***transformational climate finance***, the setting up of corresponding incentives and their concrete translation into action.
Mobilizing finance and redirecting the financial systems we need for the Paris-aligned future we want is at the core of IDFC's mission and vision.

About IDFC

The International Development Finance Club (IDFC), created in 2011, is the leading group of 26 national and regional development banks from all over the world, a majority active in emerging markets. IDFC is the largest provider of public development and climate finance globally, with US$ 4 trillion in combined assets and annual commitments above US$800 billion, including US$ 288 billion of green finance in 2022. IDFC members have the unique function of supporting domestic policies while transferring international priorities into their own constituencies. IDFC members are aligned with and work together to implement the Sustainable Development Goals (SDGs), the Paris Climate Agreement and the Kunming-Montreal Global Biodiversity Framework. Through IDFC, and in close partnership with other development bank networks, members join forces as a platform to promote and leverage sustainable development investment worldwide.

About the IDFC Climate and Biodiversity Facility

In order to help its members to strengthen their experience in climate finance and leverage knowledge and resources in the field of climate, the IDFC has created a “Climate Facility (CF)”. This facility provides resources and/or services to IDFC members in order to strengthen the integration of climate and biodiversity considerations, scale up climate-change related portfolios and institutionalize and facilitate collaborative work among members on climate change. For more information please consult IDFC Climate Facility.
IDFC is co-chaired since October 2023 by Bancoldex and the West African Development Bank (BOAD). The IDFC Secretariat is hosted by the French Development Agency (AFD) in Paris, France.
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