#Development Finance

Supporting financial institutions in developing countries in their alignment journey with climate goals

How IFIs can start moving from a project, to a counterparty and system level approach

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EXECUTIVE SUMMARY

Expert recommendations on the reform of the global financial architecture highlighted the importance of strengthening domestic public finance and capital markets that are likely to play an important role in meeting sustainable development financing needs (Songwe, Stern, and Bhattacharya 2022). These discussions converge with a new area of work emerging within International Financial Institutions (IFIs): supporting the alignment of financial systems in developing countries with the Paris Agreement goals – including bank and nonbank lenders, insurers, securities markets, and investment funds as well as clearing counterparties, payment providers, central banks, and financial regulators and supervisors[1].

As part of their alignment approach with both the mitigation and adaptation objectives of the Paris Agreement, IFIs have to assess the alignment of their direct and intermediated operations. In this process, both multilateral and bilateral IFIs are moving from assessing the alignment of the use of proceeds of their credit lines with financial intermediaries, to assessing the alignment of their financial intermediaries as institutions – covering the entirety of their balance sheet. However, many financial institutions in developing countries are at the early stage of their alignment journey. IFI professionals have therefore identified the need to support them in this process as a new area of work. Financial intermediaries are now not only perceived as intermediaries but as partner financial institutions to support.

Building on previous work, namely 'Aligning financial intermediary investments with the Paris agreement', this report provides further practical guidance for IFIs to support financial institutions' alignment with the Paris Agreement goals, and to more broadly contribute to transforming local financial systems. This guidance is developed around three pillars:

- developing a harmonised alignment assessment;
- supporting the alignment of financial intermediaries;
- at the national level, supporting the alignment of financial systems.

Developing a harmonised alignment assessment

There are a few IFIs that have developed approaches for assessing their financial intermediaries' alignment. These approaches however require different data and therefore necessitate different practices from financial intermediaries. These different approaches reflect the lack of consensus on an alignment definition and the different alignment approaches being considered. To provide a clear and strong signal to financial market stakeholders in developing countries, it will be essential for IFIs to agree on a harmonised alignment assessment framework that will not only be used for their own assessment purposes but can drive real changes of practice.

Based on a review of existing assessment frameworks and interviews with IFIs and experts from civil society organisations, authors suggest structuring this alignment assessment around:

- a quantitative assessment of current operations;
- a qualitative assessment of internal processes; and
- a qualitative assessment of the forward-looking alignment strategy.

TABLE 1. A THREE-DIMENSIONS ASSESSMENT APPROACH DRIVING REAL CHANGES OF PRACTICES

	Assessment type	Assessment approach	References	Contextualisation
Alignment of current operations	Quantitative	Assessment of current operations alignment	International transition scenarios and climate scenarios	Country-specific information on investment alignment (*e.g.* national taxonomies)
Alignment of internal processes	Qualitative	Assessment of current internal practice and capacity to mainstream a climate strategy	International guidance on climate mainstreaming	Market context and regulatory requirements
Forward-looking alignment strategy & level of ambition	Qualitative	Transition plan assessment	International guidance on transition plans	Country-specific low-GHG climate-resilient development pathways

Source: authors

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While international fora are developing guidance on how to assess current operations and how to develop transition plans, IFIs have the expertise to provide guidance on how to align internal processes with the Paris Agreement objectives over time. To develop comprehensive guidance, IFIs should rely on existing and upcoming international standards such as recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) or guidance on transition

1 IMF definition of financial systems, available at: https://www.imf.org/en/About/Factsheets/Financial-System-Soundness.

plans as well guiding frameworks from voluntary initiatives on climate mainstreaming. Authors of the report suggest, on that basis, a step-by-step alignment journey for financial intermediaries. This alignment journey is principle-based as alignment approaches are still under development and have different implications for financial institutions depending on their mandate, size and sectors and geographies of operations. IFIs will have to refine this guidance, after an initial pilot phase, by providing methodological guidance on how each action should be carried out for different types of institutions (mandate, size, level of alignment), based on the needs of each.

Supporting the alignment of financial intermediaries

Introducing new alignment criteria will require IFIs to develop an engagement strategy with their financial intermediaries on climate change and alignment. The report suggests the following guiding principles for IFIs' engagement strategies:

1. **'make the case' of Paris alignment** for both development banks and commercial financial institutions;
2. **'lead by example'** and build on their own experience to create a peer-to-peer engagement process on Paris alignment;
3. **start progressively but systematically;**
4. **develop a pragmatic dialogue on *how* to align** driven by clear actions presented in a harmonised step-by-step alignment journey;
5. **develop a concrete dialogue on *what* to align** driven by the opportunities of the transition to low-GHG climate-resilient economies for the financial intermediary;
6. **tailor this engagement process**, taking into consideration:
   a. the countries and sectors in which financial intermediaries are operating,
   b. the level of alignment of financial intermediaries and willingness to align,
   c. the influence financial intermediaries may have on the transition,
   d. the influence IFIs may have on their financial intermediary.

In addition, IFIs are uniquely equipped to build the capacity of financial intermediaries and help accelerate their alignment journey. However, as IFIs' resources available for capacity building are limited, it is important that they be optimised. Capacity building for financial intermediaries may take different forms depending on available resources:

- The first and least resource-intensive form of capacity building programs are generic capacity building programs for the implementation of specific tools, approaches, methodologies.
- The second and most resource-intensive form of capacity building is tailored technical assistance. Experts from IFIs, financial intermediaries, and civil society organisations (CSOs) all agree that it is the form that can have the most impact on the transformation of internal practice. Based on lessons learned from existing technical assistance on climate change, interviewed professionals from IFIs and financial intermediaries recommend this technical assistance to be:
  - offered to institutions who have publicly demonstrated their commitment to progress on the institutional integration of climate considerations at the strategic and operational levels;
  - tailored to the institution's needs and developed in line with the institution's climate strategy, objectives, and targets;
  - relying on clear and concrete objectives which present how the institution aims to get to the next alignment stage (in relation to the step-by-step alignment journey). This should be included in the contract obligation and closely monitored.

Supporting the alignment of financial systems at the national level

While providing support to individual financial institutions in their alignment journey is key, voluntary approaches will not be sufficient to align financial systems in developing countries. To ensure impact at scale, these efforts should be complemented by a climate-focused engagement and capacity building strategy to foster the integration of climate considerations into national regulation and supervision. This engagement strategy would contribute to creating an enabling environment, and could be articulated in policy-based loans, including a technical assistance offer to provide support for the following:

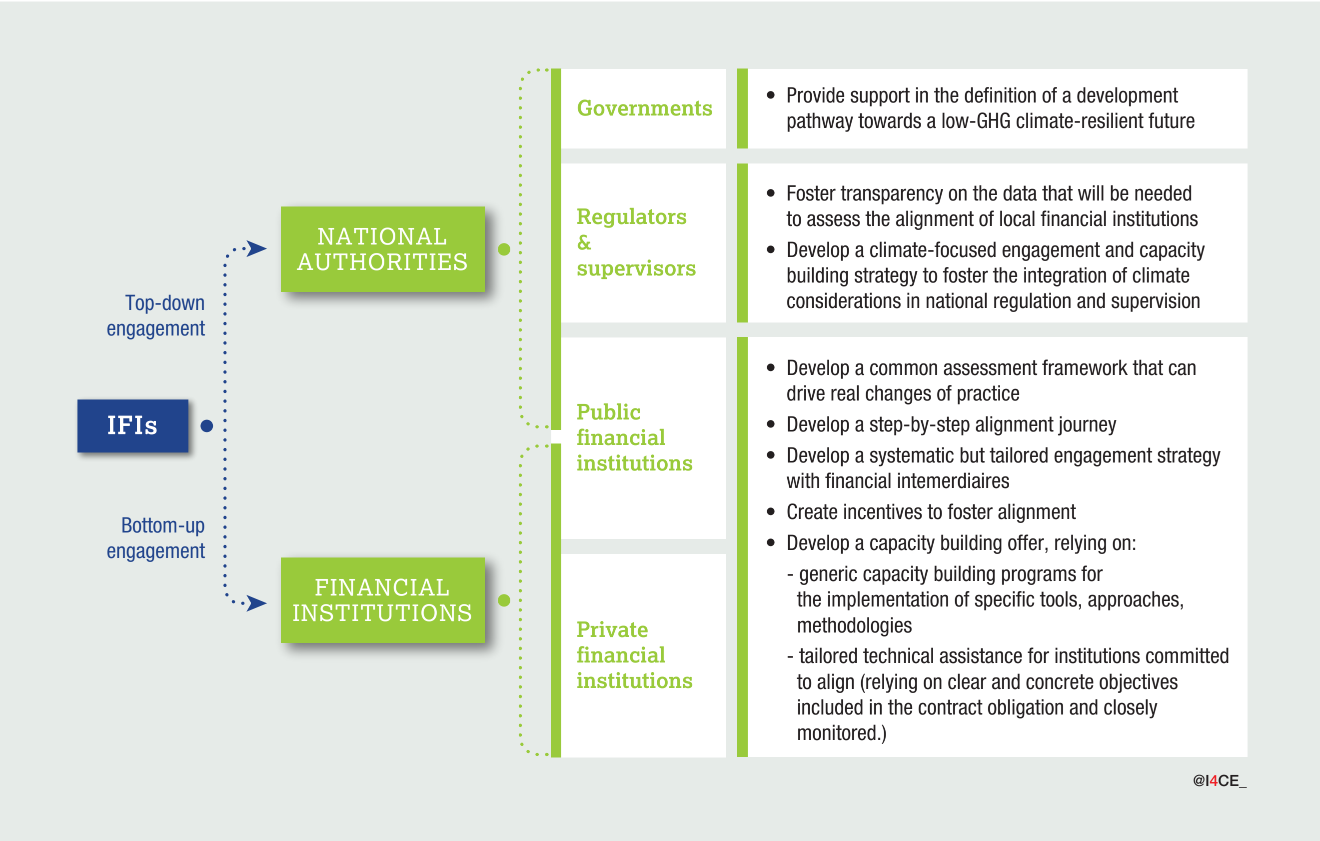
- strengthening the climate information infrastructure;
- setting supervisory expectations and monitoring their implementation;
- increasing financial institutions' awareness on climate risks (signalling, supervisory engagement, research) and identifying and assessing climate-related risks (including by running stress tests);
- requiring transition plans and integrating them into the supervisory process.

To move from a counterparty perspective to a system perspective, IFIs need to scale up their engagement with regulators and governments. For different categories of IFIs, this area will be of more or less importance and will integrate different types of activities and levels of involvement. The World Bank and the International Monetary Fund (IMF) will have a leading role to play, but other multilateral and bilateral development banks can also play an important role. They can foster dialogue and develop capacity building programs for regulators respectively at the regional and national level, in the geographies where they operate. IFIs working with private commercial banks could also develop this area of work. They could engage with networks of regulators like the NGFS, as they have important expertise in local market practices that will be key to the development of an alignment regulation.

In addition, IFIs should further strengthen their support to national governments in the development of low-GHG and climate-resilient strategies.

Providing support to both individual financial institutions as well as partner country regulators and governments should be as coherent as possible, ideally along the lines of a joint IFI bottom-up and top-down approach. Considering current constraints, it is important that IFIs initiate work on how to best complement each other and prioritise efforts where they have the most added value. Moving forward, IFIs will need the resources and mandate to engage in these different areas of work at scale.

FIGURE 1. HOW IFIs CAN SUPPORT THE ALIGNMENT OF NATIONAL FINANCIAL SYSTEMS



Source: authors

Following up on AFD's call to intensify collaboration between IFIs made at COP27 (AFD 2022), this report highlights the need for both multilateral and bilateral IFIs to work together on:

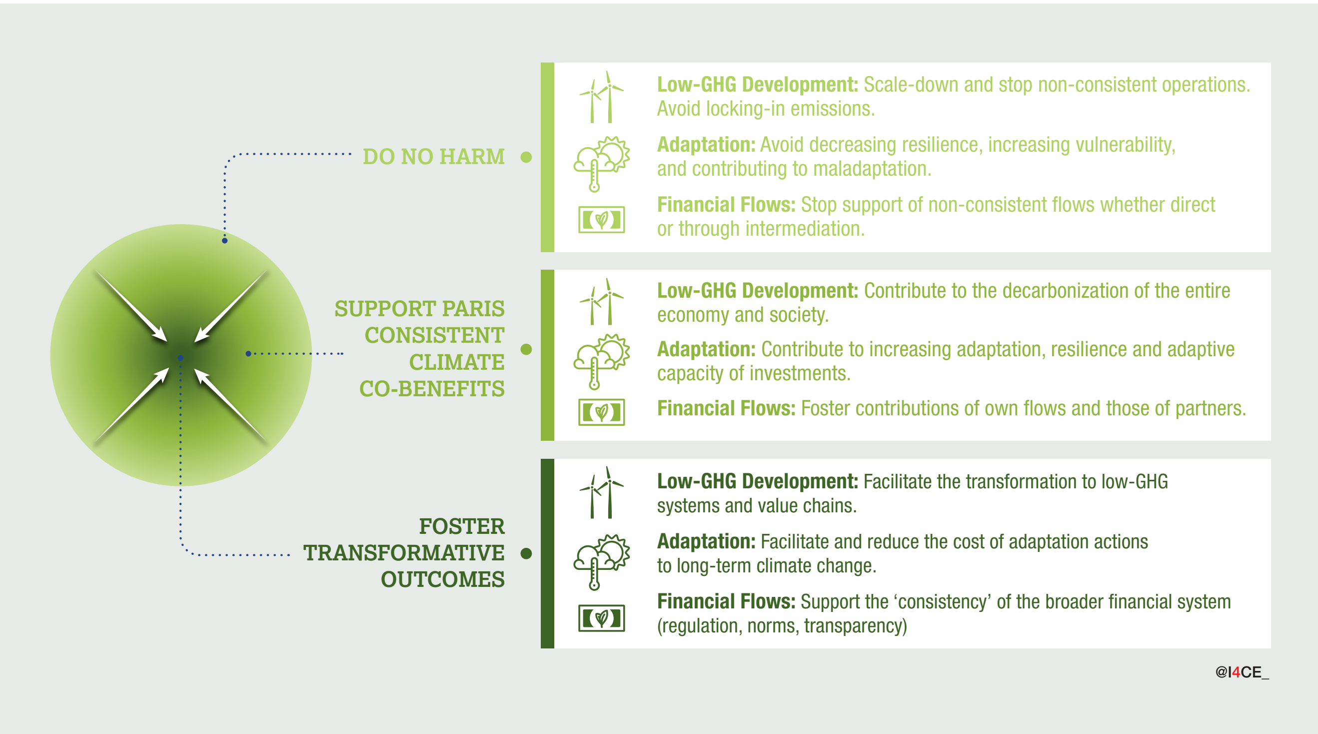
- **a common alignment assessment framework of financial institutions**, including:
  - **a common alignment assessment methodology of financial institutions' current operations;**
  - **a common alignment assessment methodology of financial institutions' internal practices** articulated around a step-by-step alignment journey – defining specific criteria for different types of institutions;
  - **common guidance on transition/alignment plans components;**
- **a coordinated engagement strategy with financial institutions;**
- **a coordinated engagement strategy with national authorities** (including governments, regulators and supervisors).

INTRODUCTION. A SHIFT FROM DUE DILIGENCE ASSESSMENTS TO SUPPORTING THE ALIGNMENT OF FINANCIAL INSTITUTIONS FOR TRANSFORMATIONAL IMPACT

A commitment to align with the Paris Agreement objectives is a commitment to make all operations – both direct and indirect – consistent with long-term mitigation and adaptation goals and to maximise impact on the transition and adaptation of economies (I4CE 2019). Groups of International Finance Institutions (IFIs) who committed to Paris alignment like the Group of Multilateral Development Banks (MDBs), the International Development Finance Club (IDFC) or the association of bilateral European Development Finance Institutions (EDFI) have consequently engaged in aligning both direct and intermediated operations. Their initial efforts concentrated on the development of methodologies and tools to assess and manage the alignment of directly funded projects and activities. More recently, they have started to develop approaches to assess the alignment of intermediated operations[2], which represent a significant share of IFIs' operations. These operations represent more than 60 percent of International Finance Corporation (IFC) commitments and about a third of all commitments of the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) (Fuchs *et al.* 2021). Two approaches are being implemented: 1) assessing the alignment of the use of proceeds of credit lines with financial intermediaries, and/or 2) assessing the alignment of the financial counterparty.

IFIs are moving from assessing the alignment of the use of proceeds of intermediated operations towards assessing the alignment of their financial intermediaries themselves. The group of MDBs for example, first indicated that, when possible, they would assess the alignment of the use of proceeds of their credit lines with financial intermediaries (based on MDB aligned project lists). In cases where this assessment could not be performed or would be uncertain, the assessment of the financial intermediary alignment would be prioritised (Group of Multilateral Development Banks 2021). However, the 'use of proceeds' approach has

FIGURE 2. THE PARIS ALIGNMENT 'BULLS EYE': ACTIVELY SUPPORTING NATIONAL AND INTERNATIONAL TRANSFORMATIONS ACROSS ALL ACTIVITIES



Source: (I4CE 2019).

2 Intermediated operations include operations intermediated via financial institutions but also investment funds. As of today IFIs alignment approaches have focused on operations intermediated via financial institutions.

serious limitations considering that any transaction is likely to affect a counterparty's cost of capital (Dupre *et al.* 2018; Fuchs *et al.* 2021). Financing aligned activities of an overall non-aligned counterparty contributes to its financial sustainability and has limited potential for a change in investment strategy and internal practices towards alignment. Individual IFIs like the EBRD or the French Development Agency (AFD) have thus indicated their intention of moving towards a more holistic approach to counterparty assessments. This approach is likely to have more impact over the long-term as it would incentivise financial intermediaries to reorient their entire portfolios towards Paris-aligned activities and not only a sub part of their activities (AFD 2022; EBRD 2021b). This assessment process could then contribute to improvements in market practice and foster transformative outcomes (I4CE 2019).

Today, IFI professionals identify three main barriers to implementing minimum alignment requirements for their financial intermediaries in developing countries:

- **At the client level, many financial institutions in developing countries have not yet started or are at an early stage of the alignment journey** and do not always have the internal capacity to adopt climate targets and develop a transition plan in the short term.
- **At the country level:**
  - **There is often no clear understanding of countries' development pathways towards a low-GHG climate-resilient future.** This is a major challenge considering that such a clear vision can inform stakeholders about the alignment of specific activities.
  - **While regulators in emerging markets and developing economies are starting to consider climate risk management approaches** (World Bank 2022), **Paris alignment considerations are far from being integrated in the national financial regulation and supervision of developing countries**. Alignment would therefore mainly be requested by IFIs.

Most IFIs, however, already have the mandate and tools to begin addressing these challenges, and are therefore particularly well positioned to engage and support:

1. **financial intermediaries** for the implementation of transparency frameworks and the development and implementation of alignment strategies;
2. **national central banks, regulators and supervisors**, in the development of regulatory frameworks fostering an orderly transition;
3. **national governments** in the definition of a development pathway towards a low-GHG climate-resilient future and the related definition of what activities are consistent and not consistent with this pathway.

A new area of work is therefore emerging for IFIs, who are progressively moving towards supporting the alignment of financial institutions, and going beyond performing traditional due diligence assessments. IFIs could have an important role to play in encouraging and accompanying their clients to align their practice with the Paris Agreement goals. Supporting the transformation of local financial institutions by providing them with incentives and technical assistance as well as engaging with local regulators and governments is well within the scope of many IFIs' sustainable development mandates. At COP27, the French Development Agency (AFD) released a position paper in which the institution states that 'beyond a project perspective, [IFIs] need to support [their] partners – and the systems within which they operate – on their own alignment journey to accelerate the transformation of the financial system and real economy' (AFD 2022).

These efforts are in line with current expert recommendations on the reform of the global financial architecture, which highlighted the importance of strengthening domestic public finance and capital markets that are likely to play an important role in meeting sustainable development financing needs (Songwe, Stern, and Bhattacharya 2022). The World Bank has highlighted that capacity is often the main barrier for a green financial sector reform in developing countries and IFIs have a number of tools (policy-based loans, technical assistance, etc.) and resources (internal expertise, research and knowledge products, tools and methodologies, etc.) to build this capacity (World Bank 2020). The support for the alignment of national financial systems should be more explicitly discussed in current debates on the reform of multilateral development banks and how they may increase the impact of their activities.

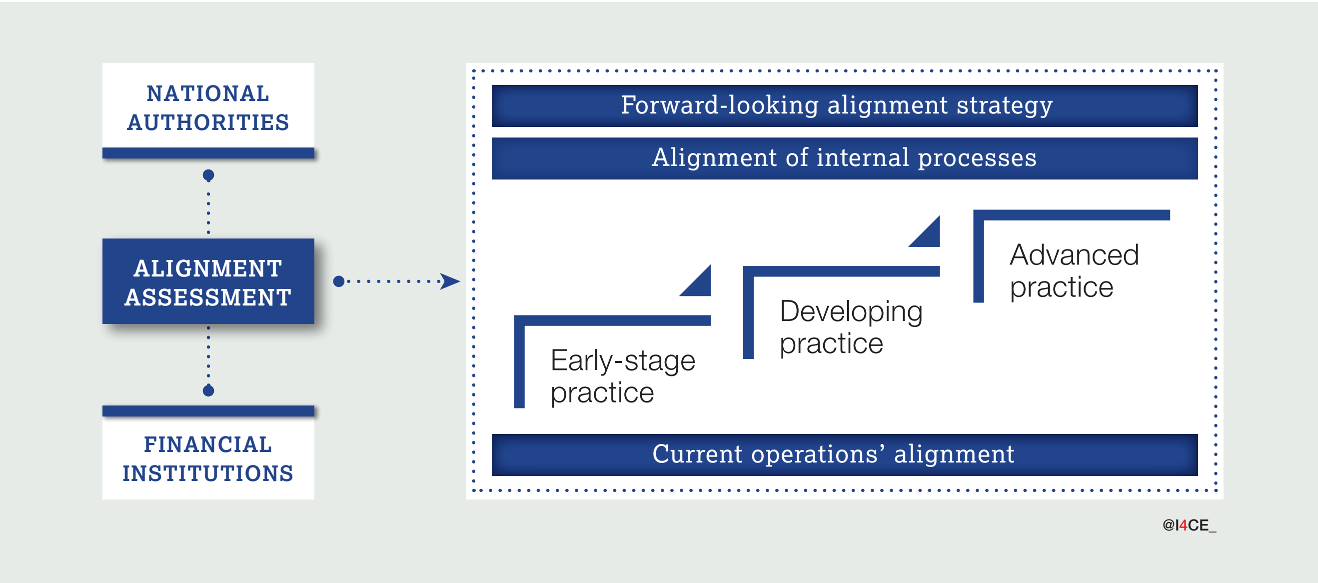
This report builds on previous work, namely 'Aligning financial intermediary investments with the Paris agreement', which provided guidance in the development of an assessment framework for intermediated operations. Germanwatch, NewClimate Institute and the World Resources Institute presented a phased approach for assessing the alignment of intermediated operations. This approach relies on both subproject-level criteria reflecting mitigation and adaptation requirements, and institutional-level criteria related to climate governance and transparency in financial intermediaries. The report concludes on the possibility for IFIs to support capacity-building efforts of their financial intermediaries (Fuchs *et al.* 2021).

This new report provides further practical guidance for IFIs to support financial institutions' alignment with the Paris Agreement goals and, more broadly, to contribute to transforming local financial systems. The guidance was developed on the basis of a literature review, a series of interviews with nine IFIs, one financial intermediary, one network of public banks, including both IFIs and financial intermediaries, and ten experts from think tanks and civil society organisations (see **Appendix 1**). Four workshops and events with IFIs, financial intermediaries and experts were organised as part of the research phase (see **Appendix 2**). Moving forward, it will be key for experts from IFIs, financial intermediaries, and civil society organisations to refine and adapt this guidance as the impact of these activities on the evolution of practices is measured and analysed. The report starts with a proposal for a harmonised alignment assessment framework. It then provides recommendations on how IFIs could develop a new area of work for the alignment of national financial systems. This focuses first on their engagement process with financial institutions and second, on their engagement process with national authorities.

1. DEVELOPING A HARMONISED ALIGNMENT ASSESSMENT DRIVING REAL CHANGES OF PRACTICE

While alignment frameworks are being discussed in different arenas across the financial sector, IFIs' public mandate and expertise should encourage them to play an active role in these discussions promoting a comprehensive step-by-step alignment journey. This journey could be at the basis of their engagement strategies with both national authorities and financial institutions.

FIGURE 3. AN ALIGNMENT ASSESSMENT AT THE BASIS OF A JOINT ENGAGEMENT PROCESS WITH NATIONAL AUTHORITIES AND FINANCIAL INSTITUTIONS



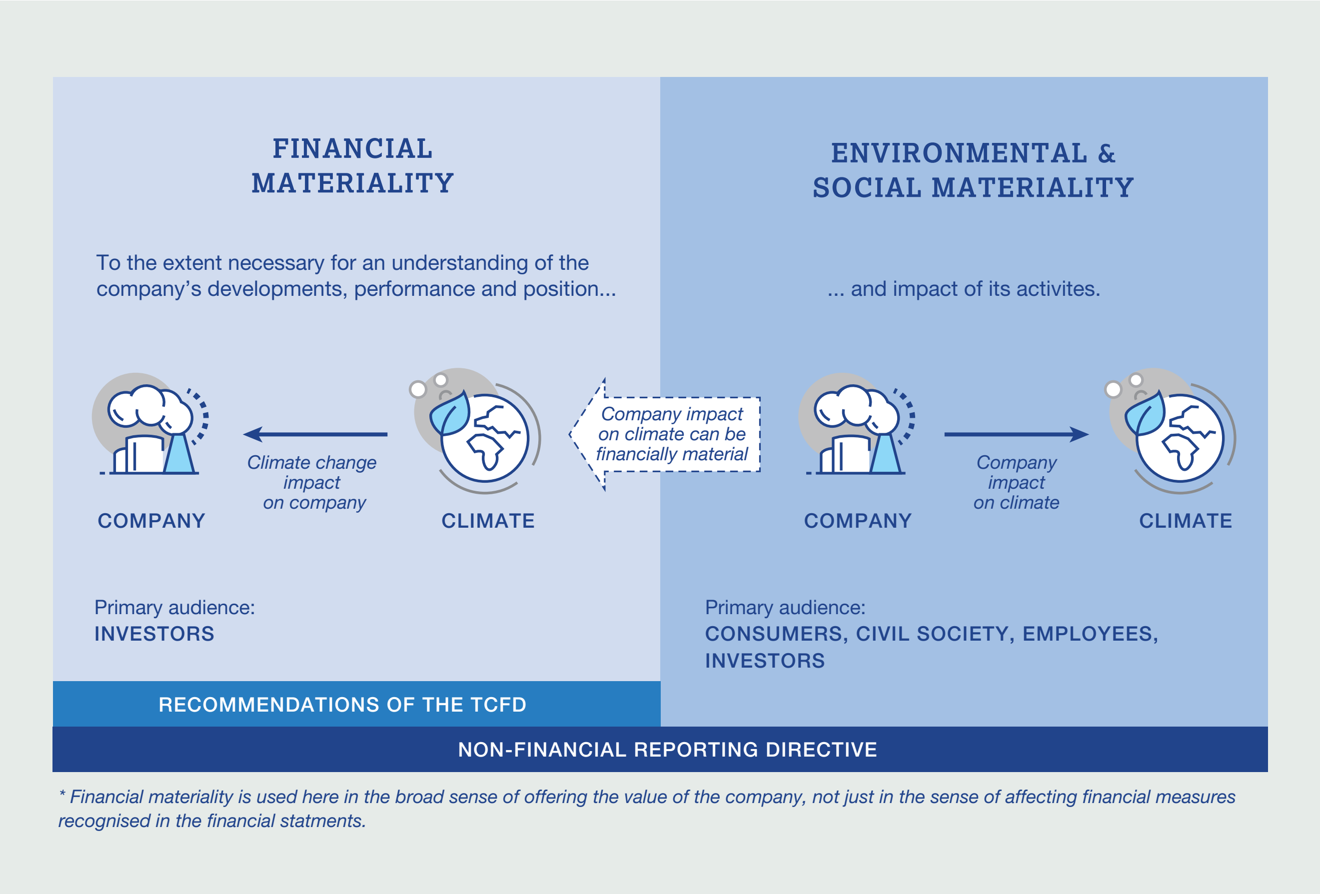
Source: authors.

Harmonising alignment assessments, a key for success

A few IFIs have already started to develop alignment assessments of their financial intermediaries and to integrate them in their due diligence processes. Counterparty due diligence is the process of evaluating the financial and operational risk of a potential business partner or counterparty before entering into a transaction or business relationship. IFIs have already introduced environmental, social, and governance (ESG) due diligences as well as climate risk due diligences in line with recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The four pillars of the TCFD (governance, strategy, risk management, metrics and targets) have contributed to mainstreaming climate considerations in the dialogue between IFIs and their financial intermediaries (see **section 2**). However, TCFD recommendations more specifically focus on the financial materiality of the transition and climate change impacts on financial institutions. As part of an alignment assessment, this focus should therefore be complemented with an assessment of how financial institutions' activities contribute to the transition and adaptation of economies (see **Figure 4**).

FIGURE 4. DOUBLE MATERIALITY PERSPECTIVE

This figure explains the double materiality perspective of the Non-Financial Reporting Directive in the context of reporting climate-related information.



Source: Overview of the new guidelines on reporting climate-related information (europa.eu).

Moving forward, IFIs should streamline ESG, risk and alignment due diligence processes into a single due diligence process. Doing so would send a strong signal about the strategic and operational direction a financial intermediary should follow to both align with climate and environmental objectives, and manage growing transition and environmental risks. This due diligence process should ideally be harmonised across IFIs to send one clear and strong signal to the financial community as 'MDBs have a leading role in defining and acting on ESG issues' (Expert panel tasked with independent review of multilateral development banks' capital adequacy frameworks 2022). However, while the group of MDBs has a joint working group for the alignment of intermediated finance, approaches of individual IFIs currently lack harmonisation.

Current approaches require different data and practices from financial intermediaries over the short term. Taking the example of the EIB and the EBRD, a financial intermediary working with both IFIs would have to develop and disclose a TCFD report with a risk-focus approach to comply with the EIB requirements, and a transition plan (on the basis of the main TCFD pillars but with specific alignment requirements) to comply with EBRD requirements if the sub-transaction assessment approach is not possible. This situation could be relatively frequent as IFIs often work with the same clients. It could lead to making the concept of alignment difficult to understand for financial intermediaries. It could also lead to an increase in internal processes to meet these different requirements. Currently, in many cases, the capacity of a financial intermediary is already an issue for Paris alignment (see **section 2**).

IFIs need to work on a common assessment framework of their financial intermediaries to avoid a race to the bottom induced by less stringent alignment requirements. Expert workshops organised as part of this research have highlighted the need for IFIs to rapidly adopt a common assessment framework that would consider the different starting points of financial intermediaries, while keeping the ambition high. If this does not occur, there is a high risk that alignment criteria will become a competitiveness criterion between IFIs. The group of MDBs has started to work on a common approach as highlighted in **Box 1**. These efforts should be further developed, and also associate bilateral IFIs via IDFC and EDFI for example.

BOX 1. IFIs APPROACHES FOR ASSESSING THE ALIGNMENT OF FINANCIAL INTERMEDIARIES

In 2020, the International Finance Corporation (IFC) developed a 'Green Equity approach' to increase IFC equity clients' climate lending and reduce their exposure to coal-related projects. While this approach was not an alignment approach per se, it contributed to set the building blocks of IFC's engagement strategy on climate change with its financial intermediaries. IFC was aiming to no longer make equity investments in financial institutions that do not have a plan to phase out investments in coal-related activities – only providing loans to financial institutions with a defined use of proceeds. While IFC was the first IFI to develop this type of strategy, CSOs have identified important limitations, as under this approach some financial institutions have continued investing in coal-related activities. This approach thus needs to be further developed to ensure alignment with the Paris Agreement objectives (BIC Europe and SOMO 2018).

In 2021, the group of Multilateral Development Banks presented their common approach for intermediated finance alignment (Group of Multilateral Development Banks 2021). It includes a counterparty-based approach relying on:

- the commitment of the financial intermediary: partnership between MDBs and financial intermediaries to improve practices around climate change;
- a tailored approach: periodic assessment based on readiness, market context, existing practices, capacity of counterparties, and regulatory context;
- the adoption of related measures: measures based on leading market and regulatory practice, such as shaping investment policies and portfolios towards investments in climate action or building capacity, tools and processes to improve risk management and disclosure linked to climate considerations.

Until now, two MDBs have developed, approved, and released an alignment assessment approach:

- **the European Investment Bank (EIB) released its PATH framework** that requires all financial intermediaries in scope (financial institutions with more than €30bn in total assets or who are among the three largest in their country) to disclose in line with recommendations of the TCFD, including in particular information in relation to transition and physical climate risk (EIB 2021). Implementation of this approach started in 2022. If financial institutions did not already disclose a TCFD report, they have the ability to do so within 12 months after contract signature. Flexibility in timing is considered for FIs operating outside the EU.
- **the European Bank for Reconstruction and Development (EBRD) released its approach** that comprises four pillars:
  - **Pillar 1:** Counterparty commitment to the Paris Agreement. EBRD counterparties must be committed to working towards aligning their financial flows with the goals of the Paris Agreement. Transactions must also comply with either pillar 2, or pillars 2, 3 and 4 combined:
  - **Pillar 2:** Sub-transactions filter. Counterparties will be required to meet minimum requirements to ensure the Paris alignment of sub-transactions financed by EBRD proceeds. This includes applying the Bank's Environmental and Social Policy and Energy Sector Strategy, which exclude any coal and upstream oil investments. In addition, the EBRD excludes investment in upstream gas.
  - **Pillar 3:** Counterparty assessment to understand climate-related business practices. PFIs will be assessed on their current approach to climate action relative to leading market and regulatory practices.
  - **Pillar 4:** Transition plan. Counterparties will be required to make progress on alignment with advanced climate-related business practices to ensure they are credibly aligning financial flows with the goals of the Paris Agreement. Progress will be assessed against time-bound milestones.

  Implementation of this approach is starting in 2023. Initially, determining the alignment of most transactions will rely on pillars 1 and 2, which focus on the use of proceeds. However, EBRD aims to assess the majority of its financial intermediaries under pillars 3 and 4, in parallel with new transactions, within four years (EBRD 2022).

In 2022, the French Development Agency (AFD) released a position paper presenting the institution's current thinking around the assessment of financial intermediaries, highlighting that 'it should be performance-based, forward-looking, and context-specific' (AFD 2022). AFD relies on:

- Performance assessment: AFD uses a screening criterion based on the share of fossil fuel sectors in a financial institution's loan book. AFD also combines this snapshot with a 'recent trend' assessment, by looking at how the volume of fossil fuel financing has evolved in the five years preceding the assessment. AFD is considering extending such criteria to other highly emissive sectors and looking into the feasibility of developing proxies for institution-wide carbon emissions.
- Forward-looking assessment: AFD has developed a due diligence questionnaire to carry out this forward-looking assessment. It is based on the five voluntary Principles for Mainstreaming Climate Action (Mainstreaming Climate in Financial Institutions 2015), and on the recommendations developed by the TCFD on transition plans (TCFD 2021). AFD has also developed, based on the questionnaire's results, a classification methodology that it is currently piloting.

Other approaches, such as the one of the Inter-American Development Bank (IDB) Group were released for consultation and are to be formally adopted and released publicly.

A step-by-step alignment of internal processes at the core of IFIs engagement process

Aligning with the Paris Agreement objective is a journey. Aligning with the Paris Agreement requires financial institutions to review their strategies and assessment frameworks for all operations. This process is therefore a long and comprehensive journey for financial institutions. It will take various forms and have different types of implications for financial institutions depending on where they start and the direction they aim to take (I4CE 2019). In addition, the end goal of this process will evolve over time.

IFIs have the expertise to provide guidance on the step-by-step journey a financial institution in a developing country may undertake to progress over time. IFIs have identified the need to develop, in a coordinated manner, a roadmap for their financial intermediaries to improve their alignment. By doing so, they would provide a clear signal to all financial intermediaries on the steps they need to undertake in this journey. To do this, IFIs can build on their own experience of mainstreaming climate considerations in their operations and aligning with climate objectives. In addition, they can draw on their unique expertise both on climate change and on financial practices in developing countries.

This step-by-step journey should rely on existing frameworks to develop a comprehensive assessment framework. It could then be used by financial institutions as robust guidance to align with climate objectives while meeting international standards in an integrated manner.

Existing frameworks to be used include:

- **Guiding frameworks developed by voluntary initiatives for the integration of climate and sustainability considerations**, such as:
  - **the Climate Mainstreaming Resource Navigator** of Mainstreaming Climate in Financial Institutions (Mainstreaming Climate in Financial Institutions 2015) – presenting the tasks that professionals within financial institutions carry out to mainstream climate change within their organisation;
  - **the Principles for Responsible Banking** – focusing on both climate and broader sustainable development goals (UNEP FI 2022);
- **Guidance for the implementation of international standards**, including:
  - **TCFD recommendations** – taking into consideration that this guidance has become a standard within the financial community but mainly focuses on the financial risk related to the impacts of climate change and the transition of economies. It should be completed by a focus on the impact of institutions' activities on the transition and climate change (TCFD 2017);
  - **guidance for the development of transition plans** – taking into consideration that this guidance is still being developed through different initiatives and focuses on mitigation and does not cover adaptation.

BOX 2. EMERGING GUIDANCE ON TRANSITION PLANS

Since 2021, the political momentum around transition plans for financial and non-financial institutions has been growing, with regulators starting to integrate transition plans as part of disclosure requirements. For example:

- In the United Kingdom, rules were introduced for listed companies and large regulated asset owners and asset managers to disclose transition plans as part of their Task Force on Climate-Related Financial Disclosures (TCFD)-aligned disclosures. The UK Transition Plan Taskforce released a first draft of its Disclosure Framework, outlining guidance and requirements for transition plans (TPT 2022).
- In the European Union, the draft European Sustainability Reporting Standards require disclosure of climate transition plans.
- In the US, the Securities and Exchange Commission (SEC) proposed climate disclosure regulation, including disclosure of climate targets and transition plans (SEC 2022).
- At the global level, standardisation work is being conducted by the International Sustainability Standards Board (ISSB), and the Network for Greening the Financial System (NGFS) will examine the relevance and extent to which financial institutions' transition plans relate to supervisors' roles and mandates and could be considered within their supervisory toolkit (NGFS 2022).

In addition, voluntary initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ) also ask their members to develop transition plans and have released guidance for the development of transition plans (GFANZ 2022).

In 2022, among the 18,600+ organisations that disclosed through CDP's climate change questionnaire, 4,100 disclosed that they had already developed a 1.5°C aligned climate transition plan. However, to date only a handful of companies provide sufficient detail on their plans (CDP 2023).

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Even though one can observe such a high mobilisation around the broad concept of transition plans, the underlying definitions still vary widely. There is not even a consensus on the objective that transition plans are supposed to deliver on. While the content of banking transition plans is still being discussed, I4CE suggests that transition plans should:

- **Set out the bank's overall decarbonisation strategy, broken down into sectoral trajectories, with intermediate emission reduction targets.** These trajectories should be developed in connection with countries' decarbonisation strategies and related identified financing needs. For banks specifically, the provision of financing for transition projects and for the implementation of company transition plans should be in the focus. Finally, the use of carbon offsetting should be reduced to a minimum for banks and their counterparties.
- **Concern all sectors covered by the bank, starting with the most emitting sectors.** It should also cover all of the bank's customers: large companies, SMEs, households and local authorities. For large companies, the existence of a robust company-wide transition plan should be a condition for granting credit.
- **Cover all the bank's business lines to ensure overall consistency.** This integration of the different business lines can be done gradually depending on the bank's business model. Furthermore, as governance issues are powerful levers for change, it seems important that the governance structures within the institutions are adapted to the objectives of the transition (I4CE 2022a; 2022b and I4CE forthcoming).

Building on the TCFD pillars and actions to mainstream climate considerations identified by Mainstreaming Climate in Financial Institutions (Mainstreaming Initiative), authors of the report suggest, in Table 2, a step-by-step journey as a basis for IFIs' discussions. This proposed journey is developed on the basis of the experience of public and private financial institutions that are members of the Mainstreaming Initiative. Their experience has demonstrated the importance of starting this journey by the development of internal capacity as well as a climate commitment, which has been taken by the top management to get the internal buy-in. To further strengthen the internal buy-in, this journey should focus on the opportunities and start with the development of climate products. However, as part of an alignment approach, the development of exclusion lists also needs to be carried out as early as possible in this journey. Building on this initial experience, financial institutions can, in a second phase, really mainstream climate considerations in the organisation. This can be done by developing a climate strategy, adopting targets, ensuring that climate considerations are taken into account in decision-making and due diligence across all products and services. These steps can enable them to access climate finance and develop activities with more impact for the transition. At that stage, financial institutions can also start two types of assessments across all of their operations: the risk and alignment assessments. These assessments can be first undertaken with simplified methodologies and tools in a pilot phase before the adoption of more robust methodologies and tools as internal teams build capacity. Most advanced institutions will continue to improve these internal processes on an ongoing basis as their climate ambition increases and methodological developments occur. They can also aim to further increase their impact, revising internal incentives, using risk sharing or blended finance products to mobilise additional finance and engaging with clients on climate change. Measuring their impact will be key at that stage, even though methodologies are currently still being developed.

This alignment journey is principle-based as alignment approaches are still under development and have different implications for financial institutions depending on their mandate, size and sectors and geographies of operations. Paris alignment approaches, tools and methodologies are still being developed and are today quite different for commercial financial institutions and public financial institutions. Actions presented in the proposed step-by-step journey therefore reflect the general actions that different types of financial institutions have undertaken to mainstream climate considerations in their organisations. This ranges from a 40 employee public bank to a large listed private bank in both developed and developing countries. This journey promoted by IFIs could become more prescriptive in a second stage as methodological developments occur and harmonisation efforts are undertaken.

Once this step-by-step journey is defined, and as part of their alignment assessment, IFIs can provide further guidance on specific methodologies to use, or minimum requirements to implement these actions. IFIs can provide specific methodological guidance and minimum requirements for each action and at the different stages of the journey. These methodological choices and minimum requirements should take into consideration the market context and regulatory requirements for financial institutions on climate change, in addition to existing climate mainstreaming practices globally. The criteria proposed by Germanwatch, NewClimate Institute and the World Resources Institute remain relevant today (Fuchs *et al.* 2021).

BOX 3. ALIGNMENT CRITERIA RECOMMENDED BY GERMANWATCH, NEWCLIMATE INSTITUTE AND THE WORLD RESOURCES INSTITUTE

The working paper 'Aligning financial intermediary investments with the Paris agreement' suggested the following requirements for financial intermediaries to ensure consistency of intermediated operations:

- **For mitigation:**
  - Excluding any new coal-related investments[3].
  - Implementing a Paris-aligned exclusion list to new investments in other sectors that can readily be decarbonised (*e.g.*, power, road, and rail transport).
  - Adopting sector-specific standards and criteria to assess subproject alignment for sectors that cannot be readily decarbonised (*e.g.*, steel, cement, and agriculture).
- **For adaptation:**
  - Assessing investments' physical climate risk exposure.
- **Governance:**
  - Making a high-level commitment to Paris alignment.
  - Ensuring sufficient staff capacity to implement mitigation and adaptation requirements.
- **Transparency :**
  - Reporting on the sector breakdown of overall investment portfolios and providing details on subprojects financed using DFI funds.
  - Disclosing mitigation and adaptation assessments.
  - Within five years, FIs should also report on climate finance and disclose climate-related risk and opportunities according to the guidelines of the Task Force on Climate-Related Financial Disclosures (TCFD).

Source: (Fuchs et al. 2021).

3 Since the release of the report, the International Energy Agency (IEA) released a Roadmap for the Global Energy Sector, which highlights that to reach net zero by 2050, 'once fields under development start production, all of the upstream investment in the NZE is to support operations in existing fields'. New fields of oil & gas after 2030 would then be non-aligned after that date and only under specific conditions before that. Exclusion of investments in new oil and gas fields should thus be considered. (IEA 2021).

TABLE 2. STEP-BY-STEP ALIGNMENT OF INTERNAL PROCESSES WITH CLIMATE OBJECTIVES

This step-by-step alignment journey is suggested as a basis for discussions between IFIs and financial intermediaries. It presents the first steps necessary to start this alignment journey and presents additional actions to further advance on this journey. Actions presented should be reviewed and strengthened when institutions move from one step to another as the capacity and ambition of the institution increase and methodological developments occur.

			ACTIONS TO INCREASE AMBITION AND CAPACITY		
Main-streaming principles	TCFD pillars	Areas of work	EARLY-STAGE PRACTICE taking the necessary steps to start the alignment journey	DEVELOPING PRACTICE mainstreaming climate consideration in the organization (1)	ADVANCED PRACTICE maximizing impact for the transition and advancing on frontier practice (2)
COMMIT to climate strategies	GOVERNANCE	Developing a climate governance (3)	• Raising awareness and building capacity of board members (3)	• Board oversight of climate targets achievements (3)	• Board oversight of climate targets achievements (3) • Linking climate performance to key performance indicators and internal incentives [of board members]
	STRATEGY	Integrating climate considerations in a financial institution's strategy	• Integrating climate considerations in the overarching core strategy	• Developing a climate strategy and transition /alignment plan presenting how the institution will achieve its climate-related targets (3)	• Integrating climate considerations in sector, country and business line strategies
		Developing climate-related targets	• Top management taking a commitment to align with climate goals (3)	Adopting targets to: • align activities with the Paris Agreement goals • increase investments in activities with positive climate impacts • reduce investments in activities with negative climate impacts	• Implementing and revising targets (3)
		Implementing climate-related strategic objectives	• Building the internal capacity of management and operational teams	• Developing institutional architecture, internal guidance, and processes to support the implementation of strategic climate goals	• Linking climate performance to key performance indicators and internal incentives [of management and operational teams]
MANAGE climate risks	RISK MANAGEMENT	Assessing and managing exposure to climate-related financial risks	• Working with IFIs to first map exposure to climate-related financial risks (3)	• Assessing the physical climate risks of assets and transactions • Assessing the climate-related transition risks of assets and transactions	• Assessing the climate-related liability risks of assets and transactions • Integrating results of risk analysis into risk management processes [and using climate risk assessments as basis for mitigation and adaptation finance opportunity origination]
PROMOTE climate smart objectives	STRATEGY	Increasing climate-related activities and investments	• [Start] offering [climate-related] products and services	• Developing [climate-related] products and services offer (3)	• Developing business among clients and market segments that contribute to achieving climate goals
		Accessing and mobilizing new sources of climate finance	• Working with IFIs to build internal capacity to access public and private climate finance (3)	• Accessing public [and private] climate finance [to increase the share and impact of climate investments]	• Using risk sharing or blended finance products to mobilize additional finance [and increase impact of climate investments]
		Reducing activities with adverse climate impacts	• [Start] using exclusion and divestment approaches strategically for activities with adverse climate impacts	• Ensuring that climate considerations are taken into account in decision-making and due diligence across all products and services	• Engaging with clients on climate change risks and opportunities and alignment with the Paris Agreement
IMPROVE climate performance	METRICS AND TARGETS	Assessing and monitoring climate performance	[Start] measuring and tracking: • activities and investments that are inconsistent with climate goals • the volume or share of activities and investments reducing greenhouse gas emissions • the volume or share of activities and investments building climate resilience	• Assessing the alignment of all activities and investments against national and international climate goals	• Measuring the real-world impact of climate-related activities and investments
ACCOUNT for your climate action	METRICS AND TARGETS	Reporting on climate-related risks and performance	• Disclosing the sector breakdown of investment portfolios (3) • Disclosing the volume or share of climate-related activities and investments • Disclosing the volume of activities with adverse climate impacts	• Disclosing an institution's climate-related financial risk management strategy • Disclosing an institution's climate change financial risk exposure • Disclosing the overall alignment of activities with international climate goals	• Disclosing the impacts of climate-related activities and investments

(1) Actions implemented in the first phase should be reviewed and new actions should be implemented.
(2) Actions implemented in the first and second phases should be reviewed and new actions should be implemented.
(3) Actions that were added to the list of actions of the Climate Mainstreaming Resource Navigator.

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Source: authors

Two additional components are needed for a comprehensive assessment to be used as the basis for a concrete and pragmatic engagement

CSOs highlight that a comprehensive financial intermediary alignment assessment should also include an assessment of the financial intermediary's current operations. This assessment can help IFIs complement their diagnosis and could be an opportunity to start a concrete and pragmatic dialogue with the financial intermediary on activities that are aligned and non-aligned.

From the perspective of using this assessment process as an opportunity to foster the alignment of institutions moving forward, the final key component of this assessment is a forward-looking transition or alignment plan setting the level of ambition of the institution. The EBRD has indeed indicated that transition plans of financial intermediaries would be 'central to this transformational approach' (EBRD 2022). The EIB also indicated that it aims to encourage all counterparties 'to be ambitious in determining their alignment plans' (EIB 2021). Bilateral development banks have considered using such instruments as well. For example AFD is also considering using a 'forward-looking assessment looking into the financial institution's climate policies, strategy, organisation, governance and accountability' (AFD 2022). As transition plans for banks have gained significant momentum in recent months, different organisations across the financial system from voluntary initiatives, to regulators in Europe are developing guidance on how to develop a transition plan and what it should include (see **Box 2**). IFIs will have to follow these developments and could actively contribute to them. This will ensure that transition plans are robust while tailored to different types of financial institutions at different stages of the alignment journey.

A three-dimension assessment approach is therefore necessary to drive real changes of practice. Approaches of IFIs like EBRD and AFD have confirmed the need to look at both where the institution stands (quantitative approach), and its strategy moving forward (qualitative approach) (AFD 2022; EBRD 2022). Based on consultation of experts from both IFIs and CSOs, authors suggest that IFIs converge around the following comprehensive but tailored assessment:

TABLE 1. A THREE-DIMENSIONS ASSESSMENT APPROACH DRIVING REAL CHANGES OF PRACTICES

	Assessment type	Assessment approach	References	Contextualisation
Alignment of current operations	Quantitative	Assessment of current operations alignment	International transition scenarios and climate scenarios	Country-specific information on investment alignment (*e.g.* national taxonomies)
Alignment of internal processes	Qualitative	Assessment of current internal practice and capacity to mainstream a climate strategy	International guidance on climate mainstreaming	Market context and regulatory requirements
Forward-looking alignment strategy & level of ambition	Qualitative	Transition plan assessment	International guidance on transition plans	Country-specific low-GHG climate-resilient development pathways

Source: authors

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Each part of this assessment process should be contextualised. Even if the assessment of internal processes is developed on a principle basis to account for institutions with different mandates, sizes, sectors and geographies of activity, this part of the assessment should take into consideration the market context and regulatory requirements. IFIs should ensure that their methodological requirements support institutions in their journey and do not contradict regulatory requirements. Similarly, the assessment of current operations and transition plans should be informed by both international scenarios as well as country-specific low-GHG climate-resilient development pathways when they are available.

To drive changes in financial institutions' investment strategies, the quantitative assessment of institutions' current operations needs to rely on assessments made at the project/asset level and sector level. To assess operations' alignment with mitigation objectives, different methodologies could be used, relying on different metrics and applied to different scopes. Portfolio assessments provide an overview of the level of alignment of a portfolio. However, such tools won't enable financial institutions to identify non-aligned operations. Additionally, insights into the development of future investment strategies could not be identified. If disaggregated at the project/asset level and sector level, this assessment can be used as a basis for dialogue with financial intermediaries on how they can progressively increase aligned operations and decrease non-aligned operations with national and international decarbonisation and resilience pathways. Both IFIs and experts from CSOs suggest that a taxonomy-based portfolio assessment covering aligned, transitional, and non-aligned investments could be useful to support the alignment process of financial intermediaries. To accomplish that, IFIs could use the MDBs' lists of activities considered universally aligned and non-aligned[4] as a starting point – expanding the list of non-aligned activities to include the oil and gas sector in line with the latest IEA report –, as well as additional country-specific information that could inform the alignment of investments (Nationally determined contributions (NDCs), Long-term strategies (LTSs), national/regional taxonomies, etc.). Currently, bilateral IFIs are looking at the share or at the volume of emissive sectors. Harmonisation of assessment approaches will be key moving forward and a current work initiated by the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD), and the Bank for International Settlements (BIS) to develop an implementation guidance for sustainable finance alignment approaches could be a useful resource for this harmonisation process. As quantified assessment methodologies of alignment with adaptation objectives are not available, IFIs consider starting with an assessment of the physical climate risk exposure of investments of their financial intermediaries. Once again, assessment at the local and sector level would better inform financial institutions in their alignment journey.

Some IFIs have reported issues when performing this assessment related to the access to and availability of data on financial intermediaries' portfolios. These issues could however be addressed. In the short term, initial pilot experience from IFIs has demonstrated that basic information on portfolios (sector, activity, location) could be sufficient to identify non-aligned investments and start the engagement process. In the medium term, international initiatives like the Net-Zero Data Public Utility will contribute to increasing transparency on key climate transition-related data, commitments, and progress of businesses and financial institutions toward those commitments. IFIs could collaborate with this initiative to ensure coverage of institutions in developing countries. In the long term, this barrier could be addressed by the implementation of alignment disclosure requirements by national regulators and supervisors, or by IFIs themselves as implemented by the EIB (EIB 2021). The support of IFIs can accelerate this process (see **section 3**).

The qualitative assessment of the institution's capacity and readiness to mainstream a climate strategy internally could be developed on the basis of IFIs' step-by-step alignment journey, serving both IFIs' assessment processes and a potential capacity building objective. This qualitative assessment may be undertaken with a harmonised questionnaire developed on the basis of IFIs' step-by-step alignment journey (see **Table 2**) to be filled in during the due diligence phase by the financial intermediary – with the help of IFIs and with external support when needed – and reviewed by IFIs' operational teams. When IFIs have more resources, or for specific institutions such as public financial institutions, IFIs could undertake a more in-depth gap analysis of the financial intermediary's level of climate mainstreaming.

BOX 4. IDFC MEMBERS GAP ANALYSIS PROCESS

In 2019, the International Development Finance Club (IDFC) announced the launch of a climate facility dedicated to supporting cooperation amongst public development banks on climate. To inform the design of the facility activities, IDFC conducted a needs assessment exercise with the support of a consultant. The objective of this assessment was to identify, among others, the areas of interest and priorities of IDFC members, their internal knowledge and capacity and the challenges they are facing.

Based on the results, IDFC has developed a work programme, including:
- knowledge sharing activities,
- capacity building activities,
- support to Project Preparation,
- facilitation of access to International Climate Funds.

As a final step, a qualitative assessment of the institution's level of ambition on climate change would serve both this assessment process as well as a broader engagement strategy. The assessment of financial intermediaries' level of climate mainstreaming should be combined with a qualitative assessment of their level of ambition to ensure that their objectives are in line with the long-term climate goals and country-specific low-GHG climate-resilient development pathways. To this end, transition plans describing both the objectives of the institution over different timeframes and how the institution aims to achieve them (on the basis of the alignment journey stages) could be a key tool. It should however be noted that these plans should aim to cover not only mitigation, but also adaptation aspects, to provide a comprehensive perspective for the assessment. In its position paper, AFD highlighted that 'Transition Plans should not concentrate exclusively on the mitigation of climate-related risks or misalignment risks but also include climate opportunities and impact' (AFD 2022). In most cases, IFIs' financial intermediaries in developing countries do not have a transition plan. The development of a transition plan could be at the core of IFIs' engagement strategies with their financial intermediaries.

The rigorous implementation of an alignment due diligence process will require an increase in human

4 The list of universally non-aligned activities includes four activities that are considered non-aligned regardless of the national context: mining of thermal coal, electric power generation from coal, extraction of peat, electricity from peat (Group of Multilateral Development Banks 2021). The list of universally aligned activities is presented in the Common Principles for Climate Mitigation Tracking (MDBs and IDFC 2021).

resources within IFIs and in financial resources to procure for external independent assessments. CSOs have indeed demonstrated that significant loopholes remain in some approaches especially due to limits in internal capacity within IFIs to perform these assessments (BIC Europe and SOMO 2018). CSOs interviewed have highlighted the need for IFIs to not only rely on client declarations but also on internal and ideally external independent assessments to verify these declarations.

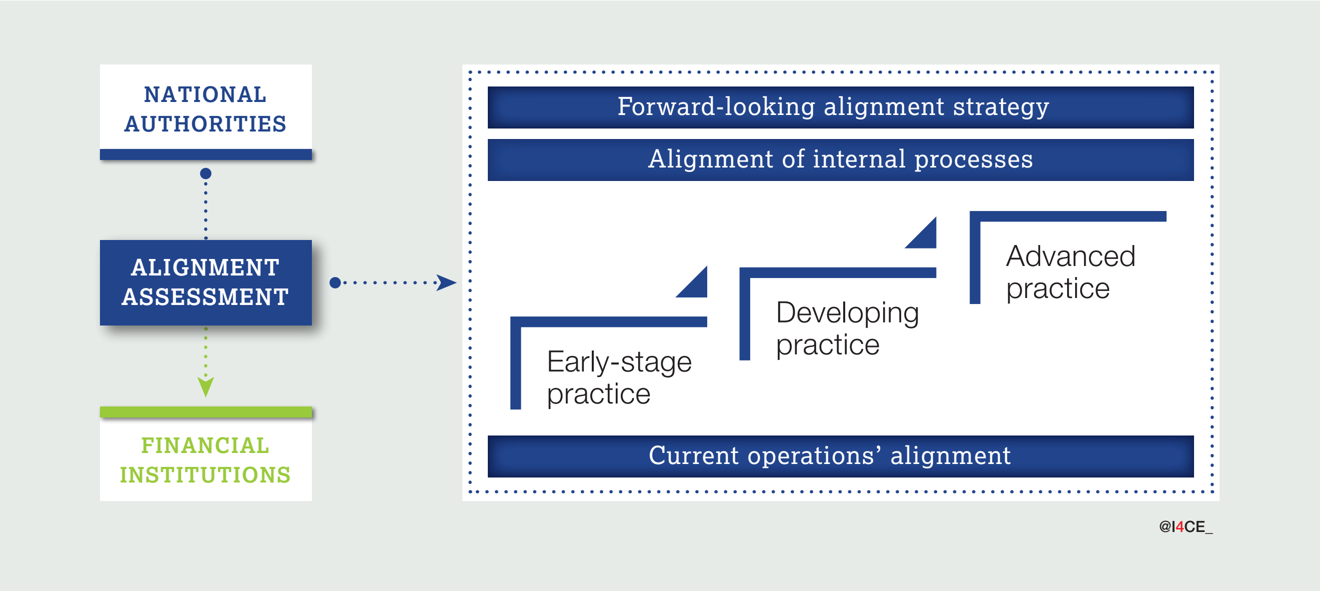
As IFIs often engage with the same financial intermediaries, they could aim to promote public disclosure and share outcomes of their own assessments between themselves to avoid duplication of efforts and reduce the need for internal resources. Information shared should cover both outcomes of the first assessment as well as the periodic monitoring of progress. This will require significant coordination efforts between IFIs as well as the financial intermediary's agreement but it will also help avoid significant transaction costs for both IFIs and financial intermediaries (linked to duplication of efforts). In addition to coordination among IFIs, the promotion of public disclosure by financial intermediaries should be a part of this alignment process.

On the basis of this assessment, IFIs would be most effective as a coalition, engaging as a group together with other relevant IFIs. IFIs should not only agree on the assessment framework, but also on the minimum requirements they will ask financial intermediaries. Moreover, they should agree on further requirements that they will set throughout the alignment journey. Coordination between IFIs on requirements for financial intermediaries could help them increase their influence on financial intermediaries' strategic orientations. It is important to note that in many cases, IFIs alone do not have the power to significantly influence financial intermediaries' strategic orientations. By joining forces and co-engaging with clients, their influence can be multiplied.

2. SUPPORTING THE ALIGNMENT OF FINANCIAL INTERMEDIARIES

At a minimum, IFIs should engage with all their financial intermediaries on Paris alignment as part of their own alignment approach. In fact, they are uniquely equipped to build the capacity of financial intermediaries and help accelerate their alignment journey. This area of work should become the first building block of broader support for the alignment of national financial systems. In this process, financial intermediaries are not only perceived as intermediaries but as partner financial institutions to support.

FIGURE 5. AN ALIGNMENT ASSESSMENT AT THE BASIS OF THE ENGAGEMENT PROCESS WITH FINANCIAL INSTITUTIONS



Source: authors.

Systematically integrating climate considerations in the dialogue with financial intermediaries

Introducing new alignment criteria will require IFIs to develop an engagement strategy with all their financial intermediaries on climate change and alignment. Most IFIs have already developed an engagement process around climate considerations and can build on this to progressively engage on Paris alignment specificities. IFI professionals indicate that their engagement strategy with financial institutions should be honest about the length and the comprehensiveness of the alignment process, and about the challenges they may face. However, IFIs should also ensure that this dialogue is not counterproductive and does not deter financial intermediaries from embarking on this journey.

IFIs and CSOs have identified several conditions for this to occur:

1. **IFIs need to 'make the case' for Paris alignment for both commercial financial institutions and development banks.**
   a. The first priority of commercial financial institutions is to remain competitive. The risk return relationship and deal flow will remain the most important indicators for them. IFIs therefore need to develop an engagement process with financial institutions and their shareholders that demonstrates how alignment strategies can help financial institutions manage the financial risks and opportunities related to climate change.
   b. The first priority of public development banks is to contribute to implementing public policies. IFIs consequently need to develop an engagement process with both public development banks and national governments on climate change. This engagement process must ensure that the mandate and objectives of public development banks are in line with, and actively contribute to, global and national climate objectives. When these pathways are not available, IFIs can support the work of public stakeholders in defining the national strategy definition process and the identification of investment needs for the transition (see **section 3**).
   c. IFIs should coordinate to send a strong signal to all their financial intermediaries that Paris alignment will be an opportunity, as well as a condition moving forward, to accessing international climate and broader development finance.

2. **IFIs need to lead by example and to build on their own experience to create a peer-to-peer engagement process on Paris alignment.** IFIs should ensure that they adopt exemplary approaches for Paris alignment within their own institutions by 1) accelerating the implementation of their alignment approach as much as possible; 2) publicly disclosing progress made in the implementation of their approach; and 3) reviewing it on a regular basis with the objective of adopting emerging best practices and methodologies. This experience can then be useful to create a peer-to-peer dialogue. A number of IFIs like the EBRD or KfW have highlighted that they are developing their approach for the alignment of their financial intermediaries on the basis of their own experience (Mainstreaming Climate in Financial Institutions 2022). They can rely on their experience to engage with financial institutions bilaterally or through initiatives like Mainstreaming Climate in Financial Institutions. Here they have the possibility to share their experience and disseminate lessons learned from best practices. This peer-to-peer exchange could be developed further moving forward.

3. **IFIs need to start progressively but systematically.** To mainstream climate considerations within financial intermediaries from top management to operations, it will be key for IFIs to progressively integrate climate as a core consideration in all their exchanges with financial intermediaries and not just as an 'add-on' (Mainstreaming Climate in Financial Institutions 2022). The process may start with outreach to clients' top management. As part of IFIs' alignment approach, these discussions should become systematic and rapidly cover all aspects of climate mainstreaming.

4. **Dialogue on *how* to align should remain pragmatic.** IFIs have identified that the concept of 'Paris alignment' may not be the most appropriate starting point for the engagement process as there is no clear and common understanding of what it means and what it implies. IFIs are therefore promoting engagement strategies that rely on previous engagement processes, such as TCFD engagement. These strategies focus on concrete steps and actions, such as the adoption of exclusion lists on fossil fuel investments. If IFIs agree on a shared alignment journey for financial intermediaries as presented in **section 1**, IFIs could tailor their engagement strategy around the steps financial intermediaries should undertake to achieve the next level.

5. **Dialogue on *what* to align should be driven by the opportunities of the transition to low-GHG climate-resilient economies and concrete exchanges on these opportunities for the financial intermediary.** Moving forward, a sector-based engagement process between an IFI and its financial intermediary could easily be developed, together with the promotion of financing instruments for the transition or climate-related investments. A few IFIs are considering linking Paris alignment progress with sustainability-linked finance instruments and interest rates. In addition, non-price incentives could be used by DFIs (*e.g.* disbursements conditional to achievement of climate-related action).

6. **IFIs should aim to develop an engagement strategy on Paris alignment with all financial institutions but adopt a tailored engagement process, depending on:**
   a. **The countries and sectors in which financial intermediaries are operating.** IFIs might want to prioritise their engagement process in countries presenting the most risks of non-alignment in the energy or agricultural sector for example.
   b. **The level of alignment of their clients and willingness to align.** Similarly, IFIs should focus their engagement efforts on those that are non-aligned the most, because they carry the biggest impact potential. Business relationships should be kept to a minimum with these counterparties. Specific instruments and incentives can then be used to foster the alignment of financial intermediaries' operations (see **Box 5**).
   c. **The influence financial intermediaries may have on the transition.** IFIs should also aim to prioritise efforts on institutions that have the most influence on the financial sector practices, such as large commercial financial institutions and public development banks.
   d. **The influence IFIs may have on their financial intermediary.** It should be noted that IFIs are likely to have more influence on some specific financial intermediaries such as repeat clients and clients receiving equity investments. Engagement with these institutions should also be prioritised.

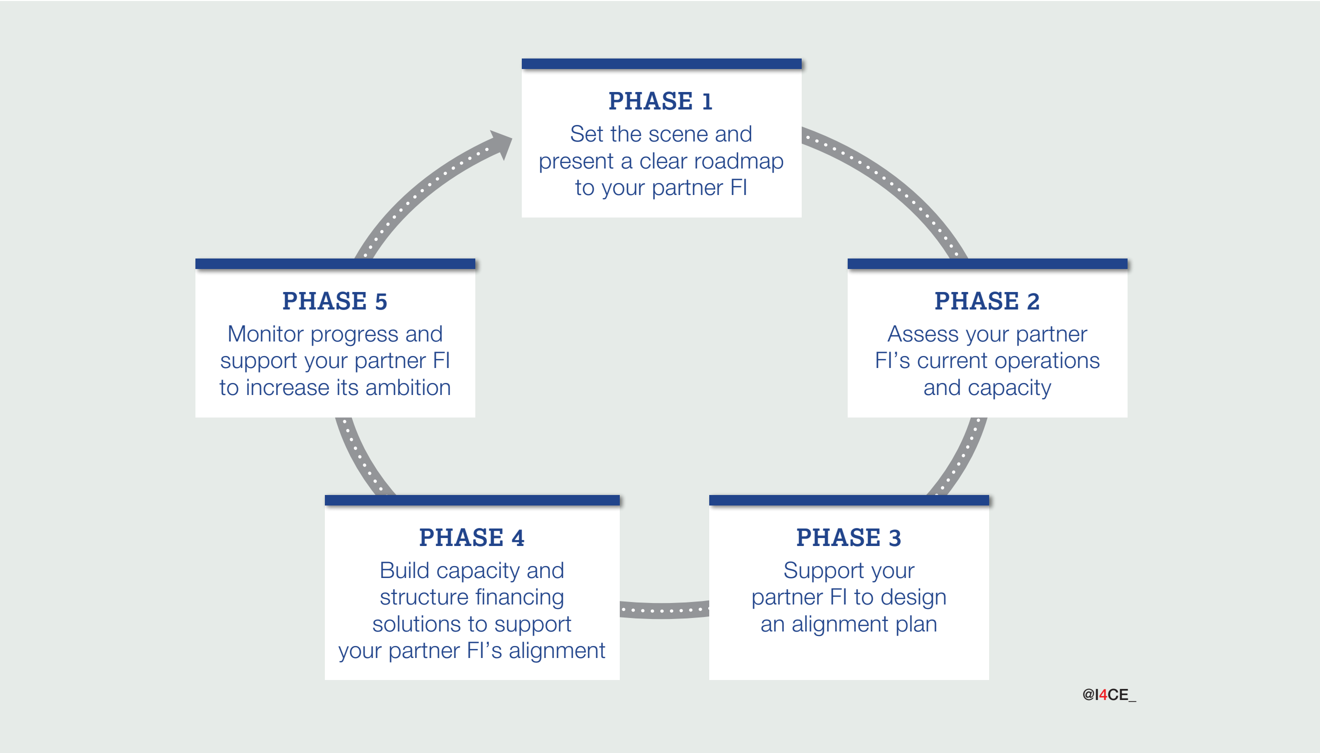
BOX 5. SUSTAINABILITY-LINKED FINANCE TO FOSTER THE ALIGNMENT OF FINANCIAL INTERMEDIARIES' OPERATIONS

Sustainability-linked finance is designed to incentivise the borrower's achievement of environmental, social, or governance targets through pricing incentives. IFC released a brief in January 2022 highlighting that it has now become 'the fastest-growing sustainable finance instrument, with over $809 billion issued to date in sustainability-linked loans and bonds. Yet these instruments are still nascent in emerging markets, which represent only 5 percent of total issuance to date' (IFC 2022).

Several IFIs interviewed have indicated that they were considering using these instruments as part of their alignment approach with climate goals. Further research is needed to identify what metric would be the most pertinent to track progress on alignment.

On that basis, IFIs could aim to develop a cycled engagement strategy, mirroring strategies developed in the private sector.

FIGURE 6. ALIGNMENT ENGAGEMENT CYCLE



Source: authors, adapted from UNEP FI, 2022

In case a financial intermediary does not honour its climate commitments, different levels of action should be implemented. IFIs should aim to integrate alignment requirements in the contract of obligation between the IFI and the financial intermediary. Before ending the partnership or divesting, IFIs should focus their efforts on developing an active engagement strategy with financial intermediaries that finance non-aligned activities, with the objective of avoiding new non-aligned operations being financed by the financial intermediary or accelerating their retirement / developing adaptation measures. Such an engagement strategy should include coalition building with other IFIs. Divestment/ end of the partnership should be the ultimate sanction if the engagement process and broader dialogue are broken. When IFIs reach this point, they should first publicly explain and send a strong signal on why they are divesting to all intermediaries and other investors.

This process requires IFIs to build expertise of their internal team in charge of the relationship with financial intermediaries. Some IFIs have started to organise training programs and to establish climate focal points within their financial institutions team. However, to efficiently mainstream climate considerations in the dialogue with a counterparty, all members of the FI team will need to be trained on the Paris alignment journey of financial intermediaries. This process will require additional human resources. Furthermore, to ensure that it becomes a core consideration of the staff during the dialogue with financial intermediaries, staff incentives and KPIs should include climate mainstreaming objectives for financial intermediaries.

Building the capacity of financial institutions in developing countries

IFIs identified that the main barrier for the alignment of local financial institutions is the lack of capacity. Ahead of the development of its alignment approach for financial intermediaries, EBRD conducted a survey among its financial intermediaries, which confirmed that there was a capacity gap and a need for EBRD to support its clients (EBRD 2021b).

IFIs can contribute to capacity building by providing technical assistance. In 2022, the G20 highlighted that 'MDBs could play a key role in providing technical assistance and long-term financing to countries, especially developing countries, in designing and implementing suitable policy measures to support transition projects'(G20 Sustainable Finance Working Group 2022). This technical assistance is also key for financial institutions. IFIs that have developed green credit lines such as AFD, EBRD, EIB or KfW have important experience in providing technical assistance to build the climate mainstreaming capacity of their clients. Even before its commitment to be 100% Paris-aligned, AFD for example often included a technical assistance component for financial intermediaries receiving green credit lines to devise a sustainable development strategy with the objective of expanding the impact of the green credit line to the overall financial intermediary portfolio in the long run (I4CE 2018).

BOX 6. AFD PRO-CLIMATE APPROACH

AFD group has developed and is currently piloting a 'Pro-Climate' approach to support financial institutions' transformation and reinforcement of their strategic and operational framework, in order to better integrate climate change.

This approach is proposed on a voluntary basis to financial institutions willing to advance on climate mainstreaming, or can be mandated by the output of Paris alignment analysis for highly emissive financial institutions. It combines:

- A credit line with a Climate Action Plan to mainstream climate across the financial institution's strategy and operations.
- Technical Assistance to support implementation of the Climate Action Plan.

The process starts with a due diligence assessment to determine where the financial institution currently stands, along 3 axes:

- Policy / strategy,
- System / tools,
- Performance / monitoring and reporting.

On that basis, a tailor-made Climate Action Plan is developed to guide progress, and technical assistance is provided by AFD Group for its implementation (*e.g.* capacity building, tool development, market research).

Source: (Mainstreaming Climate in Financial Institutions 2022)

As IFIs' resources for capacity building are limited, it is important that they be optimised. Capacity building for financial intermediaries may take different forms:

- **Generic capacity building programs for the implementation of specific tools, approaches, and methodologies.** It is the least resource-intensive form of capacity building programs. IFIs have already developed many resources and programs that they offer to their partner financial institutions. However, these tools are often developed in siloes and there is a duplication of efforts on specific topics. For example, many institutions have developed online resources for the implementation of TCFD recommendations or risk assessment approaches. Coordination on the development and dissemination of these resources would help IFIs increase the scope of topics covered by these programs and the accessibility for financial intermediaries.

  In addition to resource development, IFIs can also develop simplified assessment tools and methodologies that will support the rapid integration of climate considerations in operations, and capacity building of operational teams. IFIs are considering this option for physical climate risk assessment tools in particular, as current tools are often too complex to be implemented at the early stages of the alignment journey.
- **A tailored Technical Assistance package.** It is the most resource-intensive form of capacity building but experts from IFIs, financial intermediaries and CSOs all agree that it is this form that can have the most impact for the transformation on internal practice. However, IFIs lack the resources and experts to provide this tailored assistance to each financial intermediary. Based on lessons learned from existing technical assistance on climate change, interviewed professionals from IFIs and financial intermediaries recommended technical assistance to be:
  - offered to institutions who have publicly demonstrated their commitment to advance on the institutional integration of climate considerations at the strategic and operational levels;
  - tailored to the institution's needs and developed in line with the institution's climate strategy, objectives, and targets;

- relying on clear and concrete objectives which present how the institution aims to get to the next alignment stage (in relation to the step-by-step alignment journey). This should be included in the contract obligation and closely monitored.

As part of this process, IFIs highlighted the need to ensure that the institution develops internal capacity – and does not rely on external consultants.

Two key factors of success were highlighted by interviewed experts, before offering tailored technical assistance:

- raising awareness and building capacity of top management, to ensure institutional buy-in;
- developing a transparency policy within the institution, to be able to track and monitor progress.

This tailored technical assistance could have an impact on the evolution of practices. Experts highlighted that IFIs are in a unique position to remedy the lack of capacity of local financial institutions on climate change. In fact, such programs could have a more transformative impact than the intermediated financing of green activities as they could deeply change institutions' strategies and operations over the long term. However, ex-post impact analyses of pilot programs are necessary to further demonstrate this impact and identify both best practices and limitations.

Increasing the amount of technical assistance operations will be necessary to have an impact at scale. To do this, several options are being considered by IFIs and external experts:

- **Increasing IFIs' climate technical assistance.** This option should be further explored as part of current discussions on how to increase the resources and impact of MDBs' operations.
- **Providing additional financial resources from international climate funds such as the Green Climate Fund (GCF).** Some large programs developed by IFIs and funded by the GCF have included an important component for technical assistance of financial institutions (see **box 7**).
- **Sharing the cost of technical assistance with financial intermediaries.** This option is currently being explored by several IFIs that noted a potential demand for this. It would consist of selling this technical assistance as a service for financial intermediaries and would contribute to valuing this service moving forward.

BOX 7. AFD AND EBRD EXAMPLES OF COLLABORATION WITH THE GCF IN PROVIDING TECHNICAL ASSISTANCE FOR CLIMATE MAINSTREAMING WITHIN FINANCIAL INSTITUTIONS

In 2016, the EBRD and GCF agreed on the development of the Green Economy Financing Facility (GEFF), which aims to deliver climate finance to the private sector through Partner Financial Institutions (PFIs) across 10 countries. GEFF is an on-lending programme that provides credit lines to PFIs to create markets in the areas of energy efficiency, renewable energy, and climate resilience. As part of this project, technical assistance is provided to local PFIs and borrowers.

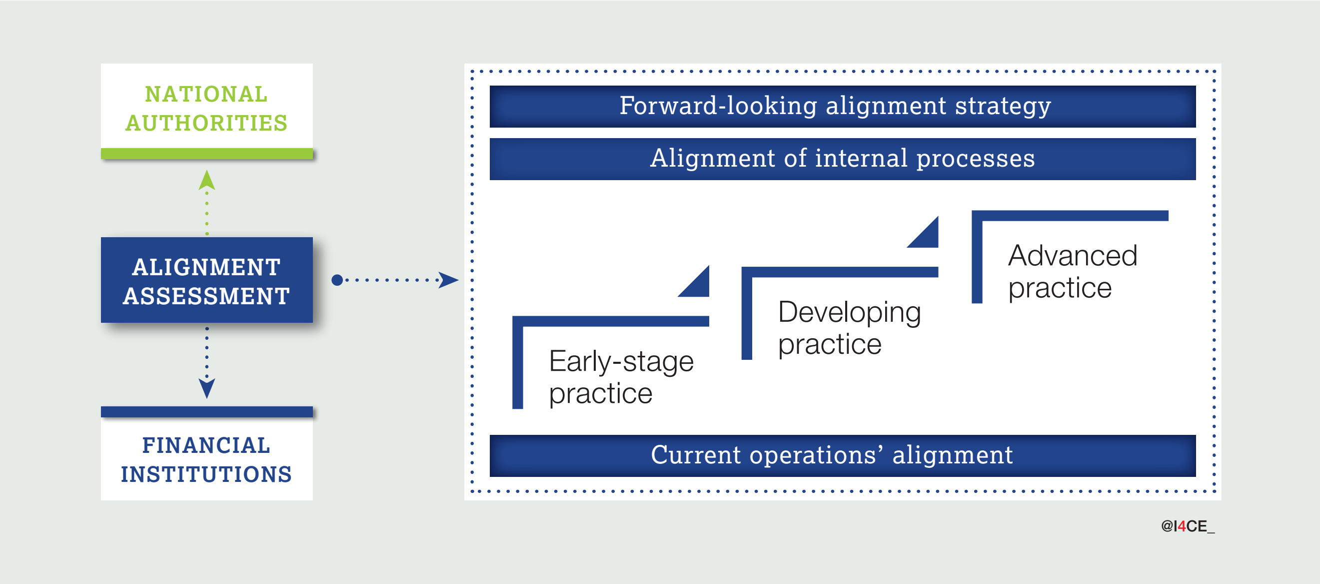
In 2018, AFD group also developed a large-scale program entitled 'Transforming financial systems for climate', in partnership with the Green Climate Fund (GCF). The GCF approved a contribution of US$280 million to this program worth a total amount of more than US$750 million. The program provides financial resources and technical assistance tailored to the needs of financial institutions and their beneficiaries in 17 countries. This support is earmarked to local public and private banks and microfinance institutions, in order for them to finance projects generating strong climate benefits.

Source: Green Climate Fund Project Portfolio

3. SUPPORTING THE ALIGNMENT OF FINANCIAL SYSTEMS

While providing support for individual financial institutions in their alignment journey will be key, voluntary approaches will not be sufficient to align financial systems in developing countries (I4CE 2022b). To ensure impact at scale, these efforts should be complemented with an engagement strategy with national governments, regulators, and supervisors. The support to national authorities and public stakeholders more broadly could form the second building block of an area of work for the alignment of national financial systems.

FIGURE 7. AN ALIGNMENT ASSESSMENT AT THE BASIS OF THE ENGAGEMENT PROCESS WITH NATIONAL AUTHORITIES



Source: authors.

Integrating the alignment of local financial markets as a core objective of financial sector strategies

Voluntary commitments from financial institutions will not be sufficient to align local financial systems. If all IFIs jointly implement new requirements, create incentives, and develop capacity building activities, they could have an important influence and contribute to changing the practices of their clients. This could in turn influence and incentivise other local financial institutions. However, these approaches will not affect all financial institutions. Furthermore, unless IFIs implement robust alignment criteria in their contract of obligation with their financial intermediary, financial intermediaries' alignment approaches may present the same limitations as other voluntary approaches in terms of methodologies used and level of ambition (I4CE 2022b). Finally, CSOs highlight that the implementation by IFIs of new alignment requirements, that are more ambitious than national regulation, could be questioned by local financial institutions.

To reinforce the effectiveness of their engagement with financial institutions in developing countries and have a transformative impact, IFIs should also engage with public authorities. When assessing the paradigm shift potential of a project, the Green Climate Fund takes into consideration the contribution to the creation of an enabling environmental as well as to regulatory frameworks and policies (Green Climate Fund 2021). In this context, MDBs have recognised, as part of their alignment approach, the importance of working 'with others on financial sector policy, regulation and best practice – influencing a climate-aware regulatory environment' (Group of Multilateral Development Banks 2021). The World Bank for example finds that a green financial sector reform is a key lever for transformative climate finance (World Bank 2020). In the context of the broader reform of MDBs and the global financial architecture, supporting the alignment of financial systems could be considered as a major area of work for IFIs moving forward. This includes the World Bank and the International Monetary Fund (IMF), as well as other multilateral and bilateral development banks working with public authorities.

BOX 8. IMF CLIMATE-RELATED ENGAGEMENT PROCESS WITH COUNTRIES

Among all IFIs, the IMF will have a particularly important role to play in the engagement process with countries on climate change. Over the past few years, the IMF has significantly increased its engagement on climate change. It is now in the process of mainstreaming these considerations in the dialogue with countries as it is included in Article IV consultations and financial stability assessments (FSAPs). In addition, the IMF has also identified a growing demand for capacity development on climate change that would need to be addressed in a coordinated manner with multilateral and bilateral development banks (IMF 2021).

IFIs have started to engage with both national governments and regulators on climate change. By strengthening and further developing these activities, IFIs could support the alignment of financial systems. One of the main barriers for the alignment of financial systems is the lack of capacity of both financial institutions and local authorities – which is something that IFIs are uniquely placed to address.

Providing support to both individual financial institutions as well as partner country regulators and governments should be as coherent as possible, ideally along the lines of a joint IFI bottom-up and top-down approach. Today, most IFIs are developing these engagement and capacity building activities within different teams often working independently. To ensure consistency and efficiency, this new area of work should be clearly identified and mainstreamed within the organisation, flagged as a key priority by the management and integrated in the financial sector strategy of the institution. As an example, the EBRD included as a first objective of its Financial Sector Strategy 2021-2025 'transforming the financial sector to lead the transition to green, low-carbon economies' (EBRD 2021a). The implementation of this objective would then require important internal coordination efforts that are currently lacking due to a lack of human resources in many IFIs.

IFIs need the resources and mandate to engage in these different areas of work at scale. IFIs should allocate additional resources to these engagement and capacity building activities. However, the current business model of IFIs promotes direct financing and return on equity (ROE) and limits IFIs' capacity and willingness to develop these activities at scale. The OECD recommends that for IFIs to 'enable an institutional re-wiring and shift of business models towards mobilisation, shareholders should reduce their expectations for ROE and re-think their allocation of concessional resources to allow development banks and DFIs to engage in policy support and capacity development, alongside direct financing, and thereby facilitate market creation and a systemic increase in finance for investment across a range of financial stakeholders (OECD 2021). If these recommendations are taken into consideration as part of the reform of multilateral development banks, more concessional finance could be used to align financial systems and current constraints would be addressed.

Considering current constraints, it is important that IFIs initiate work on how to best complement each other and prioritise efforts where they have the most expertise. Institutions like the World Bank and the International Monetary Fund will have a leading role in the engagement process with regulators and governments in general. Regional and bilateral IFIs however, may have a better knowledge of financial intermediaries' state of practice and the opportunity to develop a tailored dialogue and technical assistance program relying on bilateral cooperation from regulator to regulator.

Engaging with local regulators and governments to foster the implementation of alignment regulation

To move from a counterparty perspective to a system perspective, all IFIs need to scale up their engagement with regulators and governments. This area of work will be more or less important and will integrate different types of activities and levels of involvement for the different types of IFIs. The World Bank and the IMF will have a leading role to play, but other multilateral and bilateral development banks can also play an important role in facilitating dialogue and developing capacity building programs for regulators respectively at the regional and national level, in the geographies where they operate. IFIs working with private commercial banks could also develop this area of work, engaging with networks of regulators like the NGFS, as they have important expertise on local market practice that will be key for the development of an alignment regulation.

TABLE 3. EXAMPLE OF ACTIVITIES TO BE DEVELOPED BY DIFFERENT TYPES OF IFIs TO FOSTER THE IMPLEMENTATION OF AN ALIGNMENT REGULATION

Types of IFIs	Activities
IMF and World Bank	• Engagement with international networks of finance ministers and regulators. • Development of assistance programs with regulators and finance ministers over the world.
MDBs working with the public sector	• Engagement with international networks of finance ministers and regulators. • Facilitation of a dialogue with regulators and finance ministers at the regional level. • Development of assistance programs with regulators and finance ministers at the regional level.
MDBs working with the private sector	• Engagement with international networks of finance ministers and regulators.
Bilateral IFIs working with the public sector	• Engagement with international networks of finance ministers and regulators. • Facilitation of a dialogue with regulators and finance ministers at the national level. • Development of bilateral assistance programs with regulators and finance ministers at the national level.
Bilateral IFIs working with the private sector	• Engagement with international networks of finance ministers and regulators.

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When supporting the development of local financial systems, IFIs should aim to foster transparency on the data required to assess the alignment of local financial institutions, a transparency which would also benefit other market stakeholders. The lack of data on financial institutions was identified as one of the main barriers for the implementation of alignment requirements by IFIs, as well as other stakeholders across the financial chain (FI Group on Aligning Financial Chains with the Paris Agreement 2021). Reliable sector-based data on financial institutions' operations is a prerequisite, as discussed in the proposed alignment assessment framework above (see **Table 1**). IFIs can raise the awareness and build the capacity of national regulators to ensure that this information is publicly available.

In markets where these initial prerequisites are met, IFIs could go a step further and develop a coordinated climate-focused engagement and capacity building strategy to foster the integration of climate considerations in national regulation and supervision. The World Bank and the IMF have already developed this engagement process and other multilateral and bilateral development banks are contributing to these efforts. This engagement strategy would contribute to creating an enabling environment and could be articulated in policy-based loans, including a technical assistance offer to provide support for the following (I4CE 2020):

- **Strengthening the climate information infrastructure.** IFIs can inform national regulators about transparency requirements reflecting both the impact of climate change on financial institutions and the impact of financial institutions on the transition. They can also support the development of climate taxonomies and their use to create fiscal, financial, or regulatory incentives for climate investments. The IMF and the World Bank Group are currently working together, with the OECD and the BIS to develop an implementation guidance for sustainable finance alignment approaches, applying the G20 Sustainable Finance Working Group Principles on alignment methodologies (forthcoming publication). This guidance aims at supporting relevant public authorities and private organisations in developing alignment methodologies. This guidance could be used as a reference by IFIs in their engagement process.
- **Setting supervisory expectations and monitoring their implementation.** IFIs have the possibility to build the capacity of supervisors to have them formalise their expectations of financial institutions as recommended by the NGFS (NGFS 2020). Through their engagement with local financial institutions, IFIs can also inform supervisors about the current state of market practice and compare it to the state of practice at the regional and international level.

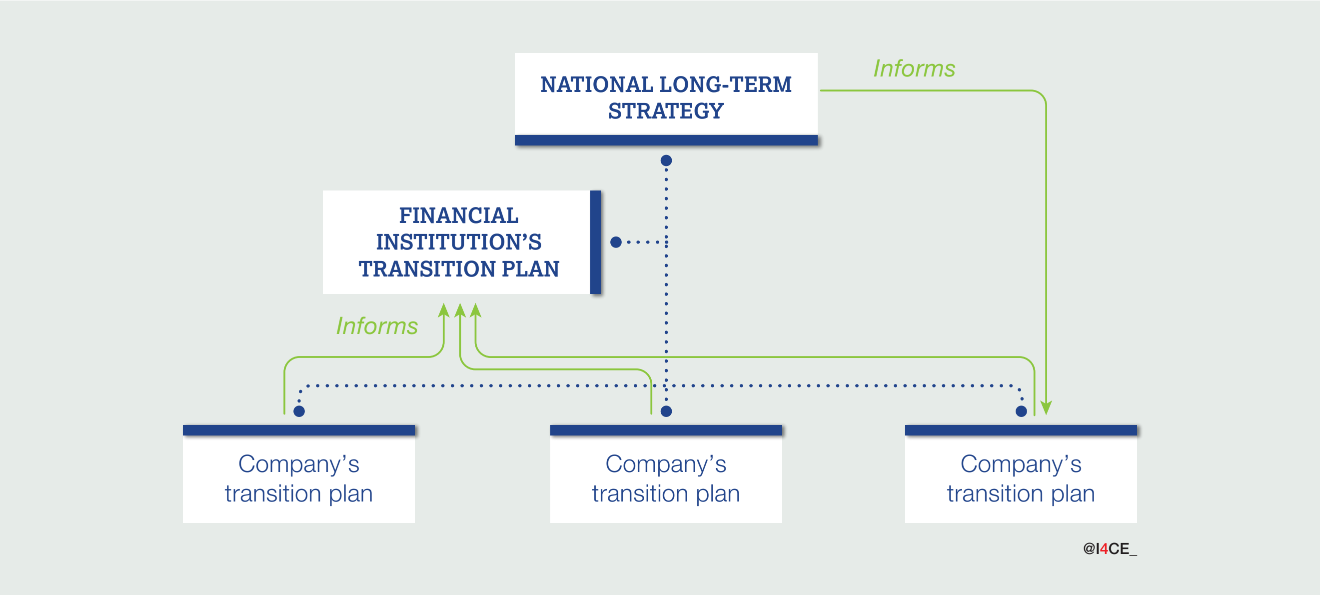
- **Climate risk assessment:**
  - **Increasing financial institutions' awareness on climate risks (signalling, supervisory engagement, research):** An important initial step for regulators and supervisors in national central banks may be to join the Network for Greening the Financial System (NGFS). This network can help raise awareness and build the capacity of regulators and supervisors. IFIs have noted that joining the NGFS sends a strong signal to local financial institutions to start integrating climate considerations in their organisation. IFIs as a group could aim to partner with the NGFS – several are already observers to the NGFS – and work with them in the organisation of events, the development of new knowledge products and simplification of existing ones as well as in the development of training programs for different teams of regulators and supervisors. These activities could be undertaken together with those targeting financial institutions as presented in **section 2**. Together, this would send a clear signal on the increasing importance of climate issues in the eyes of the regulator/supervisor.
  - **Identifying and assessing climate-related risks.** IFIs could inform regulators and supervisors about the different approaches and tools to assess the financial risks related to climate change and foster an orderly transition. This may include assistance running stress tests. The IMF for example has started implementing steps to offer capacity development support on climate risk analysis and supervision of climate risk (IMF 2022). While doing so, it would be important to inform national authorities about emerging best practices based on lessons learned from other countries, as well as the impact of these different tools and approaches on the evolution of financial institutions' practices.
- **Requiring transition plans and integrating them into the supervisory process.** Transition plans are now considered a key instrument to foster an orderly transition and reduce financial risks related to climate change. As IFIs aims to use transition plans to assess the alignment of their partner financial institutions, they are also ideally positioned to support regulators in the implementation of regulatory requirements on that regard. For transition plans to be relevant, they need to be adopted at all levels of the economy. It would therefore be particularly important for IFIs to initiate a dialogue with local regulators and supervisors around regulatory requirements on transition plans for financial and non-financial institutions. If regulators agree and implement these requirements, IFIs could also support the implementation of prudential transition plans to give supervisors the ability to verify the actual implementation of transition plans, and to take corrective action if such plans proved to be deficient (I4CE, 2022).

Building on existing work on the alignment of policy-based loans (PBL), additional research is needed on how IFIs can support local regulators and governments to foster the implementation of regulation fostering alignment practices. Banking and financial services is the second sector to receive MDB budget support after the energy sector. However, only a small amount of this support is allocated to climate change action (Neunuebel *et al.* 2022). As IFIs are developing their offers for PBL on climate change, additional research on how they can contribute to aligning national financial systems would be useful.

Engaging with national governments to define national short- and long-term low-GHG climate-resilient plans

National short- and long-term low-GHG climate-resilient plans are needed before economic stakeholders can develop transition plans. As the international community agreed back in 2015 when adopting the Paris Agreement, the transition of economies should be driven by low-GHG and climate-resilient strategies and plans of countries (United Nations 2015). Once developed, these strategies and plans will inform transition plans of companies, which in turn will inform the transition plans of financial institutions. Structured and detailed strategies are therefore key to ensure the coherence of efforts of all stakeholders of the economy.

FIGURE 8. ENSURING THE COHERENCE OF ALIGNMENT EFFORTS ACROSS A NATIONAL ECONOMY



Source: authors.

However, not all countries have developed long-term strategies (LTSs). Multilateral development banks and some bilateral development banks like the French Development Agency provide assistance to countries in the development of low-GHG and climate-resilient strategies. As part of a strategy to align local financial systems, these efforts need to be scaled up and better coordinated. The creation of a joint LTS facility announced at COP26 could represent an opportunity to strengthen and coordinate efforts (Group of Multilateral Development Banks 2021). Through this shared MDB facility, in coordination with other facilities of bilateral development banks, IFIs could more specifically support the modelling aspects, as well as the identification of financing needs for the implementation of the LTS and the development of associated financing plans. Finally, IFIs could consider supporting the definition of national or regional taxonomies of Paris-aligned or non-aligned investments that would be made available to all financial and non-financial institutions (I4CE, 2022).

Engaging with national public financial institutions, whose practices may have an important influence on local market practice

National public financial institutions represent the largest amount of public development finance with 70% of total operations (Institute of New Structural Economy and French Development Agency 2021). It is thus essential for IFIs to engage with them, as they will have an important role to play to locally finance the transition, as infrastructure investors, and private finance mobilisers and investment innovators (Griffith-Jones, Attridge, and Gouett 2020). Additionally, they can also influence local market practice and disseminate alignment practices.

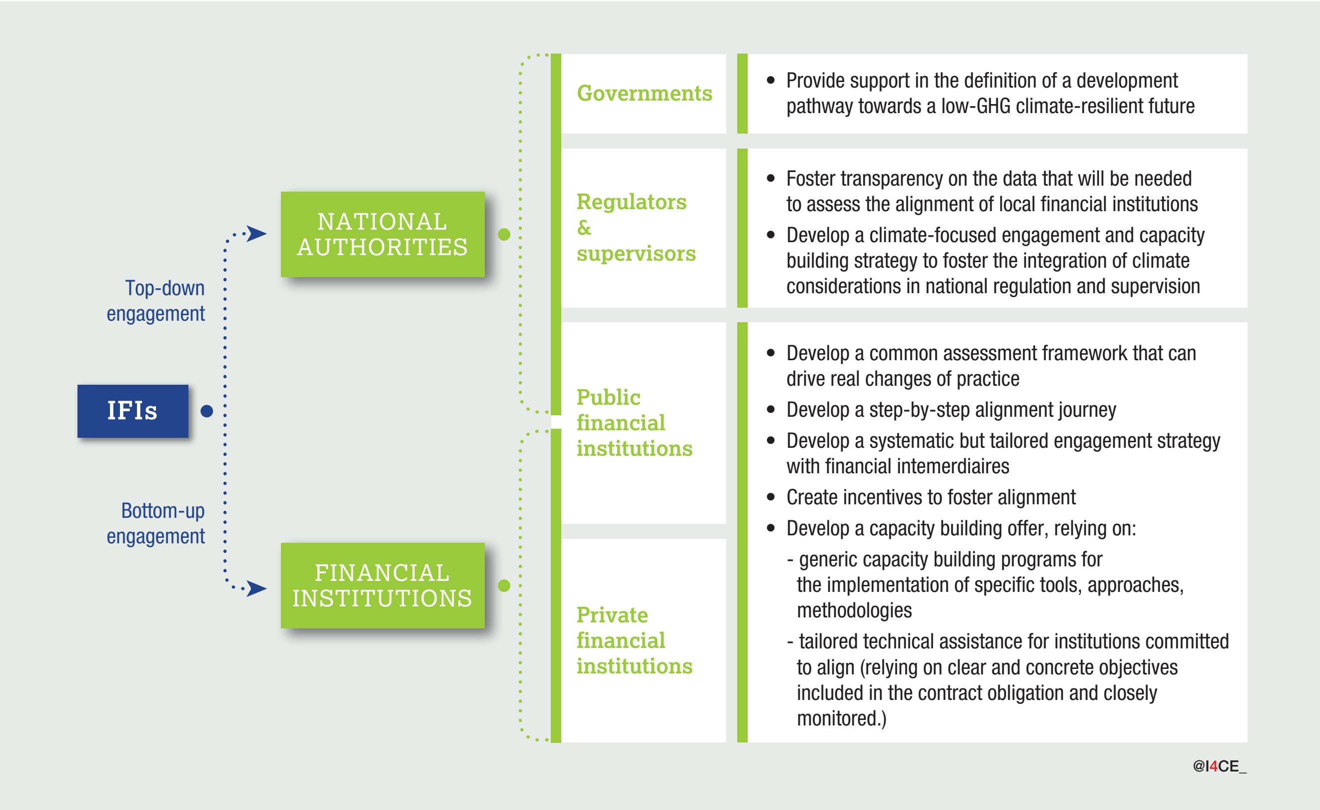
As national public financial institutions implement public policies, this engagement process needs to be done considering parallel engagement with national governments. Experience from IFIs has demonstrated that an engagement strategy aiming to change the sector policy of a national public financial institution must be complemented by an engagement strategy targeting the ministry responsible for this sector. Further research is needed on how IFIs can develop an efficient engagement strategy with national public financial institutions.

CONCLUSION

IFIs are moving from assessing the alignment of their financial intermediaries to creating an enabling environment and supporting their alignment journey. This report explored how IFIs could develop this new area of work to support the alignment of financial systems in developing countries. It provided recommendations on how to develop a common assessment framework that can drive real changes of practice. The second part of the report provided recommendations and guiding principles on how to develop the engagement strategy and capacity building offer for financial intermediaries. The third part started to explore how IFIs could engage with national governments, regulators, and supervisors to support the alignment of financial systems in developing countries. Moving forward, research organisations and IFIs should further explore the specific offer IFIs could develop to support regulators and supervisors with the alignment of national financial systems with national and global climate objectives.

Providing support to both individual financial institutions as well as partner country regulators and governments should be as coherent as possible, ideally along the lines of a joint IFI bottom-up and top-down approach (see **Figure 1**).

FIGURE 1. HOW IFIs CAN SUPPORT THE ALIGNMENT OF NATIONAL FINANCIAL SYSTEMS



Source: authors.

The report highlights the need for IFIs to harmonise their approaches to avoid duplication and send a clear signal to the financial markets, as well as work on how to complement each other and prioritise efforts based on their added value.

Following up on AFD's call to intensify collaboration between IFIs made at COP27 (AFD 2022), this report highlighted that IFIs should aim to work together on:

- a common alignment assessment framework of financial institutions, including:
  - a common alignment assessment methodology of financial institutions' current operations;
  - a common alignment assessment methodology of financial institutions' internal practices articulated around a step-by-step alignment journey – defining specific criteria for different types of institutions;
  - common guidance on transition/alignment plans components;
- a coordinated engagement strategy with financial institutions;
- a coordinated engagement strategy with national authorities (including governments, regulators and supervisors).

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APPENDICES

Appendix 1. List of institutions interviewed

Type of institution	Institution's name (and teams interviewed)
IFI	AFD – Climate team, FI team, ESG team
IFI	Proparco – Climate team, FI team, ESG team
IFI	BII – Climate & FI team
IFI	DEG – ESG team
IFI	EBRD – FI team
IFI	IDB Invest
IFI	IFC
IFI	World Bank
Network	IDFC
Other finance institution	IMF
Financial intermediary	Bank of Africa
Asset manager	Amundi
Think tank	E3G
Think tank	Finance Development
Think tank	NewClimate Institute / Germanwatch / WRI consortium
Think tanks	ODI
International organisation	OECD
NGO	Brettonwoods Project
NGO	Oxfam
NGO	Recourse
Consulting	Nodalis
Consulting	Axa Climate

Appendix 2. Events organised with IFIs, financial intermediaries and experts

Title: **How to support the alignment of IFIs' financial intermediaries**
Date: September 2022
Format: closed-door workshop
Participants: IFIs

Title: **Supporting partner financial institutions in their journey towards Paris Agreement alignment**
Date: November 2022
Format: public side-event (COP27)
Participants: IFIs, financial intermediaries

Title: **Rethinking development banking in the Decade of Delivery**
Date: November 2022
Format: public workshop (COP27)
Participants: IFIs, IFIs' shareholders

Title: **Supporting the alignment of financial institutions' strategies and operations with the Paris Agreement objectives**
Date: November 2022
Format: public workshop (COP27)
Participants: IFIs and financial intermediaries

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