

Key findings



Alignment of Public Banks with the Paris Agreement: Insights of E3G's Public Bank Climate Tracker Matrix

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Public and Development Banks have a critical role to play in ensuring a sustainable COVID-19 recovery. They are responsible for delivering \$2.3 trillion in global finance annually. PDBs oversee [10% of total finance](#) around the world.

In order to ensure a safe climate for all, it is critical these institutions align their lending with the Paris Agreement on climate change. Many have already committed to do so.



Objectives and research questions

As we face the climate crisis, public and development banks have the opportunity and the imperative to lead the climate transition and deliver the Paris Agreement's goals. In line with this, most Multilateral Development Banks (MDBs) and Bilateral Development Finance Institutions (BDFIs) have pledged full alignment of all new investments before 2025. However, there is still no common alignment methodology and most banks are still in the process of establishing their individual alignment approaches. Against this background, [E3G's Public Bank Climate Tracker Matrix](#) aims to make transparent the extent to which these PBs are mainstreaming climate change in their work, whilst also providing evidence-based recommendations and identifying areas of best practice amongst institutions.



Methods

The tool provides greater granularity to the Paris alignment approaches proposed by the European Development Finance Institutions group, the International Development Finance Club and the Joint MDB group. This results in a framework constituted by 15 metrics, which have been broadly categorised using the six '[building blocks](#)' of Paris alignment identified by the latter: (1) climate finance; (2) climate risk, resilience, and adaptation; (3) internal activities; (4) mitigation; (5) engagement and policy support, and; (6) reporting.

Within each metric, each public bank is scored as either 'Unaligned', 'Some progress', 'Paris-aligned', or 'Transformational', depending on its performance. Specific details regarding how these benchmarks are determined for each metric, along with a justification for the score of each assessed bank, is provided.



Results

The alignment of PBs with the Paris Agreement is an ongoing process, which is -unfortunately- not necessarily linear. Since 2018 – when E3G's tool was established- there has been massive progress towards alignment. However, this progress remains mixed. Some institutions have a strong performance on specific issues, e.g., African Development Bank and Japan International Cooperation Agency on adaptation, European Bank for Reconstruction and Development on energy efficiency, European Investment Bank and Agence Française de Développement on fossil fuels and Inter-American Development Bank on nature-based solutions. Nonetheless, the current geopolitical context has challenged PBs in terms of what some perceive as competing mandates, i.e., climate action and development. This has further aggravated a key area which needs rapid improvement, i.e., phasing out of fossil fuel, as some MDBs like the World Bank still finances fossil fuel projects whereas others which had already phased-out fossil fuel financing are currently under pressure to backslide on this pledge, e.g., EIB.



Recommendations

- MDBs can leverage considerable private capital even in challenging periods. This ability can be further enhanced if the recommendations posed by the Capital Adequacy Framework (CAF) review are followed. This will help unlock the resources which are key for the transition of emerging and developing countries.
- Decisive shareholder action is a precondition for achieving the necessary changes within MDBs and other PBs and the implementation of the CAF review recommendations.
- Given that each MDB (as well as other PBs) rely on their own methodology to account for climate finance, third-party auditing should be required, particularly considering non-disclosed activities like trade finance and direct finance.
- MDBs require very strong leadership to tackle both climate change and developmental aspirations. This needs to be done in tandem.