



E3G

THE POSITION OF MULTILATERAL DEVELOPMENT BANKS AHEAD OF COP26

29th October 2021

As the world comes together at COP26 to find a way forward to tackle the climate emergency, E3G takes a look at what is needed from the Multilateral Development Banks.

MDBs have an important role to play in the transformation of developing and emerging economies toward climate neutrality and resilience. They need to become agents of transformative change, pushing for a clean, just and resilient development model. For that, they need to scale up support for clean development and support countries in identifying how to streamline decarbonisation and economic development.

It is both feasible and necessary for MDBs to play a larger role during this critical juncture. To meet the challenge, they will need to be able to deploy sufficient public capital but also increase their role as mobilisers of private capital. “Shifting the trillions” of private sector financing will require a greater de-risking of investments and sending long-term market signals that can act as a major accelerator.

To play this crucial role, their shareholders will need to agree changes in their business models and provide additional finance.

The state of play ahead of COP26.

Paris alignment – The MDBs should commit to be fully Paris aligned from the start of 2022

If an MDB has not announced a date for Paris alignment, this is shown as ‘TBC’.

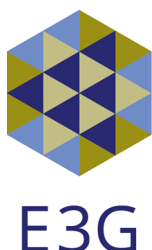
<u>AfDB</u> TBC*	<u>ADB</u> 07/2023*	<u>AIIB</u> 07/2023	<u>EBRD</u> 2023	<u>EIB</u> 2021	<u>WB</u> 07/2023	<u>IFC</u> 07/2023*	<u>IDB</u> TBC*	<u>IsDB</u> TBC
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***AfDB** – AfDB may propose to align with building blocks 1 – 3 (Mitigation, adaptation, and climate finance) by 2023, with the others to follow latest by 2024/25.

***ADB** - Alignment of non-sovereign operations will be 85% by 1st July 2023 and 100% by 1st July 2025

***IFC (& MIGA)** - 85% of new operations will be aligned by 1st July 2023 and 100% of these by 1st July 2025

***IDB** - Direct investment methodology applied in 2022 & reported on in 2023, followed by other methodologies. An **announcement** will happen at COP on **the 2nd November**.



Fossil fuel exclusions – The MDBs should commit to ruling out oil, gas & coal financing

The US **has a policy** where it “will oppose” MDB support for coal, oil, and upstream gas projects, and will only support other gas projects in restricted circumstances in poor and vulnerable countries. This will apply to all MDBs except AIIB, EIB and IsDB, where the US is not a shareholder. This is more stringent than most of the current MDB fossil fuel exclusions.

The ADB, EBRD, World Bank and IDB use similar approaches for downstream gas investments. A set of tests is emerging which is meant to ensure alignment of the investments. The tests, that are emerging, are closely aligned with the US guidance note and similar documents. However, the application of these criteria is subject to interpretation.

1. The project has to ensure that it is aligned with the Paris agreement and does no harm to its objectives.
2. There must be a phase-out plan attached for the project.
3. Cleaner alternatives must have been exhaustively explored and deemed not suitable.

<u>ADB</u> Coal	<u>AfDB</u> Coal*	<u>AIIB</u> Coal*	<u>EBRD</u> Coal U O&G	<u>EIB</u> All	<u>WB</u> Coal U O&G	<u>IFC</u> Coal U O&G	<u>IDB</u> Coal U O&G	<u>IsDB</u> None
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*AfDB & AIIB - President statements on ruling out coal financing. Not written in official policy | AfDB expected to formalise coal exit in coming months with the Climate Change and Green Growth Framework.

U O&G = Upstream Oil & Gas

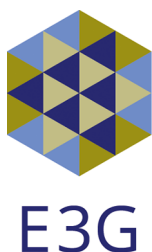
Climate finance - MDBs should commit to climate finance accounting for 50% of total operations by 2025 & increase current joint 2025 target of \$65 Billion

Total MDB climate finance in 2020 reached \$66Bn, above their joint 2025 target of \$65 billion. However, climate finance to low and middle-income countries fell in 2020 to \$38 billion, below the joint 2025 target of \$50 billion. Most MDBs have not met their stated individual climate finance targets, meaning that there is room to increase their joint target.

<u>ADB</u> \$100B 2019-30	<u>AfDB</u> \$25B 2020-25	<u>AIIB</u> 50% 2025	<u>EBRD</u> *50% 2025	<u>EIB</u> †50% 2025	<u>WB</u> 35% 2021-25	<u>IFC</u> 35% 2021-25	<u>IDB</u> 30% 2020-23	<u>IsDB</u> 35% 2025
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ADB & AfDB cumulative \$ targets assessed by % of total operations (avg 2017-19) | Recent ADB increase from \$80B |

*Green finance, †Climate & environment



Climate risk, resilience, and adaptation

This section is based upon an assessment from the **E3G Public Bank Climate Tracker**. Paris alignment is defined as ‘Comprehensive project-level climate risk management, enhancing client resilience, and scaling adaptation finance.’ **The EIB** has recently approved an adaptation action plan as part of its climate bank roadmap process.

If an MDB has provided an adaptation finance target, this will be shown as a percentage of total climate finance. The MDBs committed to a joint 2025 adaptation **target** of \$18 billion.

ADB PA 34%	AfDB PA 50%	AiIB SP	EBRD PA	EIB* SP 15%	WB PA 50%	IFC SP	IDB SP	IsDB SP
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PA – Paris aligned, SP – Some Progress | *EIB – The EIB will launch an adaptation plan at COP26 | **ADB** - 34% of climate finance between 2019-2030. | **AfDB** - 50% of climate finance between 2020-2025 | **EIB** - 15% of climate finance by 2025 | **WB** – At least 50% of climate finance will support adaptation |

Nature based solutions

This section is based upon an assessment from the **E3G Public Bank Climate Tracker**. Paris alignment is defined as ‘Some use or promotion of nature-based solutions, good protection of biodiversity, climate-related agricultural standards, commitment to net-zero deforestation, initiatives for restoration of natural forests & peatlands & forestry policy support.’

ADB PA	AfDB SP	AiIB UN	EBRD UN	EIB SP	WB SP	IFC SP	IDB SP	IsDB UN
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PA – Paris aligned, SP – Some Progress, UN – Unaligned

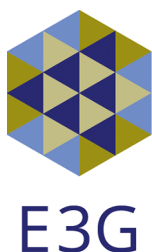
Increasing the scale of finance

In the run-up to COP26, donor countries have been preparing a \$100 Billion **climate finance delivery plan** that encouraged “MDBs who have not yet done so to continue coming forward with multiyear pledges to ensure predictability in climate finance”.

At the UN Climate Action Summit in 2019, the MDBs **published** forward looking figures detailing their joint climate finance ambition for 2025. Their joint 2025 target was \$65 billion. In 2020, total MDB climate finance in 2020 reached \$66Bn, above their 2025 target.

This suggests there is a room for the MDBs to increase their joint 2025 target, especially as many MDBs have increased their individual climate finance targets since the 2019 statement.

The MDBs have not yet presented a joint statement on raised climate finance ambition ahead of COP26. Doing so would help demonstrate how the MDBs intend to contribute to keep 1.5°C global warming in reach.



Private finance mobilisation

The donor community's \$100 Billion **climate finance delivery plan** also called on the MDBs "to further scale up their climate finance portfolio, to produce and share concrete actions that will enhance the mobilization of climate private finance".

The World Bank exemplifies the current problem. They have missed their previous targets on mobilising private capital. According to the **2019 Joint MDB Report**, they are only able to mobilise less than \$1 from the private sector for every \$1 of climate finance they provide.

Ahead of COP26, the World Bank asked its shareholders for more capital to support climate investments. It claimed that it can leverage ten times the amount paid-in through private capital, but shareholders did not approve this request, given the World Bank's poor performance record.

E3G analysis of past projects suggests that MDB funding of renewables could be increased six-fold through full Paris alignment and the better use of existing capital. However, this would require changes in institutional risk management approaches. This covers capital adequacy rules, greater use of investment risk mitigation tools and better cooperation between MDBs.

Such reforms would still not be enough to provide the quantum of change needed. There are trillions of dollars in the pockets of sustainability-conscious savers in rich countries, but this money is not yet flowing at scale to emerging economies, where investment needs are greatest. To address this problem, a new approach for climate finance mobilization would be needed, through new burden sharing arrangements between investors, MDBs and national public banks.

Expected MDB Announcements at COP26:

- > The MDBs will likely present a joint statement on climate finance during COP.
- > **November 2nd** - Signing of a joint-MDB declaration on investing in nature. This is according **to the IDB**. The EBRD also **lists this event** on their website.
- > **November 3rd** - The MDBs will **provide an update** on the Paris alignment process. The MDBs will present the joint methodologies for Paris Alignment, as well as frameworks for policy-based lending and counterparty/intermediary alignment.
- > **November 4th** – MDBs **will present** the Common Principles for MDB Support to a Just Transition. These common principles have already **been published**.
- > **November 11th** – An event which **will highlight** the investment and impact goals for cities each MDB has agreed to deliver.