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MAINSTREAMING CLIMATE ACTION WITHIN FINANCIAL INSTITUTIONS

CFA BRIEF



CLIMATE
FINANCE
ADVISORS

HOW WE INVEST MATTERS

KEY MESSAGES

- Investors and financial institutions play a pivotal role in scaling up finance to address climate change – both in terms of opportunities and risk management. As such, climate change should be a core consideration and a lens through which institutions deploy and manage capital.
- Climate risk is both a financial risk and a credit risk. Aligning operations to both manage those risks and scale-up climate-aligned investments will be a differentiator for all investors in the future.
- Mainstreaming climate change considerations throughout financial institutions' operations enables financial institutions and investors to improve investment decisions, improve their returns, and deliver better, more sustainable short-term and long-term results—both financially and in terms of social and environmental outcomes.
- Numerous international efforts are now driving efforts towards mainstreaming climate considerations within the operations of financial institutions, including:
 - The "[Mainstreaming Initiative](#)": launched in 2015 and endorsed by more than 60 financial institutions, this outlines practical operational approaches to integrate climate considerations across origination, investment, and portfolio management, and
 - The Task Force on Climate-related Financial Disclosures (TCFD), launched in 2017.

Climate Finance Advisors' mission is to accelerate sustainable, climate-aligned investment to the benefit of society, the economy, and the global environment. Established in 2015 as a Benefit LLC, CFA is a women-owned consulting and advisory firm specializing in helping our clients develop climate finance strategies, appraise and structure climate-aligned investments, channel public and private capital to sustainable investment, and integrate climate considerations into investment decisions, financial products and services, and policies.

PRINCIPLES FOR MAINSTREAMING CLIMATE CONSIDERATIONS

The core voluntary principles of mainstreaming are:

- **Committing** to address climate change and incorporate climate strategies
- Actively **managing** climate risks across the portfolio, pipeline and new investments
- **Promoting** tailored climate-smart instruments, tools, and knowledge
- **Improving** climate performance through indicators and monitoring
- Being **accountable** for climate commitments, investments and activities

Effective mainstreaming rests in financial institutions’ ability – and that of their borrowers and investees – to integrate climate considerations into their business and tracking climate-related benchmarks. Examples of actions to align with these principles include:

- Align short-, medium-, and long-term strategies with climate objectives
- Develop a climate change governance framework as a decision support tool
- Develop operational tools to improve climate performance of activities
- Mobilize and catalyze financing and developing specialized financing vehicles
- Track indicators and policies that support green investments
- Report on the institution’s strategy and performance to address climate risk

“MAINSTREAMING” AND TCFD

The [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) is a voluntary disclosure framework launched in 2017 and is aligned with the intent of Mainstreaming Initiative’s core elements. TCFD provides guidance on how institutions should report on their management of financial risks and opportunities associated with climate change. This multi-level approach involves advancing the mainstreaming of climate-related considerations by incorporating these into institutions’ governance, strategy, risk management, and metrics and targets.

As of June 2021, more than 2,300 public and private organizations in 86 countries support TCFD.

TCFD’S FOUR CORE ELEMENTS

Source: TCFD website, <https://www.fsb-tcfd.org/support-tcfd/>



Source: World Bank Group and AfD, 2017. “[Mainstreaming Climate Action within Financial Institutions: Emerging Practices](#).”



“Mainstreaming” is the systematic integration of climate change considerations across the strategies, programs and operations of public and private financial institutions.

[Mainstreaming Climate Action in Financial Institutions: Emerging Practices](#) Petersberg Climate Dialogue

CFA SERVICE OFFERING

CFA uses a multi-step process to support clients' efforts to mainstream climate considerations across operations, whether an institution is seeking to develop a climate strategy, implement climate-related goals, pursuing TCFD alignment and/or disclosure, or simply seeking to enhance its operations by becoming more "climate-smart". CFA utilizes the principles and intent of both the Mainstreaming Initiative and TCFD while customizing them to an institution's goals and unique characteristics. CFA specializes in the comprehensive integration of climate considerations within corporations and financial institutions across a number key areas:

1. Corporate Governance
2. Corporate Strategy
3. Corporate Policies & Procedures
4. Investment Decisions
5. Risk Management
6. Metrics and Standards

CFA EXPERIENCE

- **Emerging Market Development Finance Institution:** Created a framework and methodological guide for mainstreaming climate risks into this infrastructure bank's project cycle and conducted training sessions to integrate climate change risk considerations into its financial decision-making process.
- **Multilateral Development Bank:** Supported the development of a workplan to integrate climate risk into credit and risk management operations, mapping current definitions and practices of financial institutions, identifying transition and physical risks, and analyzing areas with the greatest potential for future activities.
- **Multilateral Development Bank:** Developed a climate change policy, including the implementation framework and 5-year climate action plan, with attention to mainstreaming policy in regional hubs and global practices.
- **Co-authored *Mainstreaming Climate Action within Financial Institutions:*** Emerging Practices, a guide outlining the guiding principles to integrate climate considerations within financial decision and financial institutions. The publication was released as part of the Climate Action in Financial Institutions Initiative, a coalition of more than 30 public and private financial organizations working to systemically integrate climate considerations across their strategies, programs and operations.

CFA'S CONSULTING PROCESS



Established in 2015 as a mission-driven Benefit LLC, Climate Finance Advisors is a women-owned, B-Corp certified consulting and advisory firm that helps its clients develop climate finance strategies, and integrate climate considerations into investment decision-making, portfolio management, financial products, services, and policies.

To engage with CFA on this issue, please contact us at info@climate-fa.com.