Key findings

Climate Change and Development Bank Project Cycles

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THE VISIBLE HAND: Development Banks in Transition

At the One Planet Summit held in December 2017 in Boulogne-Billancourt (France), and acting on their previous commitments to support the Five Voluntary Principles for Mainstreaming Climate Change, nine Multilateral Development Banks (MDBs) together with the International Development Finance Club (IDFC), announced their vision to align financial flows with the objectives of the Paris Agreement. More recently, in parallel to the MDB commitment, the International Development Finance Club committed to mainstream climate finance into direct lending operations.

Objectives and research questions

In this report, the authors analyze the extent to which those official commitments and principles have become manifest in the regular project cycle operations of a representative sample of Development Finance Institutions (DFIs) operating across the globe. As defined by the World Bank, "the project cycle is the framework used to design, prepare, implement, and supervise projects."

Methods

For both MDBs and IDFC members, the paper analyzes the strategy, roles, tools and techniques used to mainstream climate change in their operations at the project level. For each DFI individually, and for the two sets of DFIs together this involves three levels of analysis:

(1) DFI strategies on climate change, as they pertain to mainstreaming climate change into their respective project operational structures;

(2) their roles in facilitating their clients' efforts to meet the requirements applied to them;

(3) the actual requirements applied to their clients by each DFI.

For this analysis the authors relied on primary sources: the official ESS policies and borrower requirements as set forth in public documents.

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Results

One key finding of this report is that some stages of the project cycle, as currently conducted, are inherently more conductive to mainstreaming climate change than others. In particular the screening, scoping, impact and risk assessment, mitigation, the monitoring and reporting stages of the Environmental and Social Impact Assessment (ESIA) process provide ample opportunities to consider climate change.

On the other hand, such processes as information disclosure at the early stages of the impact and risk assessment, along with stakeholder consultation during the assessment, and grievance mechanisms are less conducive to integrating climate change, but can be modified to improve mainstreaming of climate–related impacts and risks.

Recommendations

Although many development finance institutions are beginning to move in the right direction, it is urgent that they scale their ambition, coordinate their actions, and be held accountable.

- ➔ The Finance in Common Summit, the first global meeting of all public development banks, is a perfect opportunity to do just that.
- ➔ DFIs need to move beyond general pledges of alignment to compulsory commitments, with clear targets and timelines for action.
- ➔ A summit like this also presents an opportunity for coordinated action, where appropriate DFIs can join forces on financing climate transitions and share best practices with each other along the way.
- ➔ Finally, strong mechanisms for transparency and accountability should be erected at local, national, and global levels to ensure that DFIs are meeting these commitments, moving forward.

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Access the research paper
CLIMATE CHANGE AND DEVELOPMENT BANK PROJECT CYCLES