

# 2020-2025 CLIMATE ACTION PLAN



January 2020

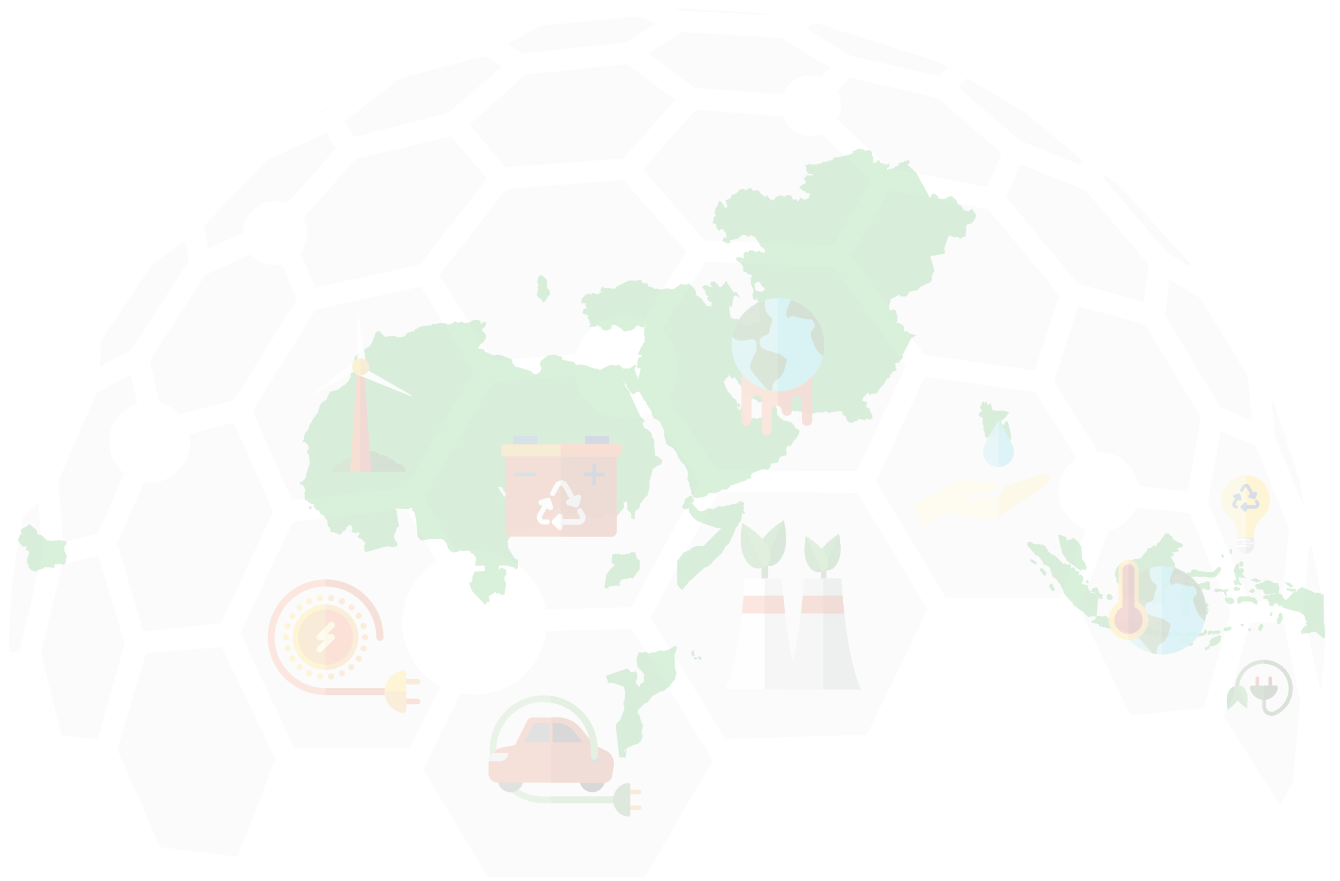
## About the Islamic Development Bank

The Islamic Development Bank (IsDB) is a multilateral development financing institution, established in 1975, that aims to foster the economic development and social progress of its 57 member countries and Muslim communities in non-member countries in accordance with the principles of the Shari'a (Islamic law). Its mission is to promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.

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## Abbreviations

BB	Building Block
CCP	Climate Change Policy
COP	Conference of the Parties (UNFCCC)
CSA	Climate-smart agriculture
IFI	International financial institution
IsDB	Islamic Development Bank
MC	Member Country
MCPS	Member Country Partnership Strategy
MDB	Multilateral development bank
MENA	Middle East and North Africa
NAMA	National appropriate mitigation actions
NAPA/NAP	National adaptation programmes of action
NDC	Nationally determined contribution
OCR	Ordinary capital resources
SDG	Sustainable Development Goal
SVT	Simplified Verification Tool
TA	Technical assistance operations
UNFCCC	United Nations Framework Convention on Climate Change

## Executive summary

In February 2019, the IsDB Board of Executive Directors approved the IsDB Climate Change Policy (CCP) with the overarching goal of deepening sustainable development imperatives for a better and safer planet. The CCP strategic pillars include mainstreaming climate action in the Bank's operations, promoting climate change resilience, supporting transition to green economy and leveraging resources to meet the Bank's climate and development objectives. To meet the goals of this policy, it will be essential to have: (i) increased capacity within the Bank and among key stakeholders in Member Countries (MCs); (ii) a sustained and growing pipeline of climate-related financing opportunities; (iii) a sustained ability to mobilize additional resources and access to concessional sources of funding (including climate finance); and (iv) increased requests from MCs for these services. The IsDB Climate Action Plan responds to the essential requirements to meet the goal of the CCP.

The Climate Action Plan will be implemented from 2020 to 2025; it outlines IsDB's plan to align its operations and business activities to support MCs in transitioning to more resilient and sustainable economies. This Climate Action Plan recognizes that synergy between the CCP pillars will be a key determinant of its overall success. During the Climate Action Plan implementation period, under **Pillar 1: Mainstreaming climate considerations in IsDB operations**, the Bank will intensify its climate change mainstreaming effort by systematically incorporating climate change into its operations and focusing on the most pressing needs of its MCs (especially building resilience, robust infrastructure and economic growth) through its sector analysis and diagnostics, country financing and advisory programming, climate risk management across Bank operations, and climate change integration into sector strategies. Similarly, for **Pillar 2: Promoting climate change resilience**, the Bank will increase its assistance to MCs in building their resilience and reducing their vulnerability to climate change risks through (i) sectoral approaches and interventions (climate risks and opportunities); (ii) policy-level

approaches and interventions (nationally determined contributions, national appropriate mitigation actions, national adaptation programmes of action); and (iii) financial support tailored to adaptation and resilience, such as technical assistance and Reverse Linkage programmes. For **Pillar 3: Green growth and supporting the transition to a green economy**, IsDB will increase efforts that help MCs undertake green economic transition through ramping up country-level investment and technical assistance for green economy transition and policy support. This will include investments and technical assistance in (i) renewable energy; (ii) energy efficiency measures in all sectors (e.g. water, manufacturing, production); (iii) low-carbon transport and mass transit; (iv) climate-smart agriculture with a carbon reduction impact/co-benefit; (v) sustainable trade; (vi) clean/green private sector investment; and (vii) support for innovative technologies and/or research and development in complementary technologies, such as battery storage or carbon capture and storage and/or sequestration. For **Pillar 4: Leveraging resources**, in addition to core financing from the Bank's ordinary capital resources, in the next five years, the Bank will endeavour to leverage additional resources for climate change through (i) the design of innovative products and services; (ii) off-balance sheet resource mobilization, such as domestic in-country resources, private sector institutions, philanthropic foundations; and (iii) the creation and management of specialized financing and/or trust fund vehicles.

In line with the IsDB CCP, and commitments to support MCs in their low-carbon, climate-resilient sustainable development, the Climate Action Plan also shows how IsDB has committed to a climate finance target of 35% of overall annual lending by 2025. This target aims to position the Bank on a long-term trajectory to proactively align its own financing with increasingly ambitious climate change objectives, recognizing that its MCs are highly vulnerable to climate change impacts. This document also outlines the alignment and linkages of the Bank's climate change efforts and financial flows to the objectives of the Paris Agreement.





# Introduction

## Context

1. Extreme weather has affected many countries and millions of people in the last five years, with sometimes devastating repercussions on people and livelihoods, as well as economic growth and ecosystems. The period 2015–2018 was the four warmest years on record with exceptional heating, both on land and in the ocean – a clear sign of continuing long-term climate change associated with record atmospheric concentrations of greenhouse gases.<sup>1</sup> However, temperatures are only part of the story. Many of the extreme weather events during this period are consistent with what would be expected from a changing climate. Therefore, emissions reductions and adaptation and resilience measures should be a top priority for every development finance institution, as well as policymakers, financial institutions, businesses and consumers across the world.
2. Furthermore, the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement and United Nations Sustainable Development Goals (SDGs) have provided the foundation for all countries to commit to undertake development that is both low-carbon and resilient in order to comprehensively address climate change. Underscoring the Paris Agreement is the global commitment to limit global warming to well below 2°C by the end of the century. Most experts agree that achieving this goal will require net-zero emissions by 2050, merely 30 years from now.
3. Islamic Development Bank (IsDB) Member Countries (MCs) are severely impacted by climate change. Many MCs are particularly vulnerable to the physical impacts of a warming planet, including heatwaves, flooding, sea level

rise, intense storms (including sandstorms) and drought. Changes in the global climate result in both acute climate events (e.g. more intense storms) and chronic challenges (e.g. water scarcity and persistent increased heat). These physical manifestations of climate change have both direct and indirect impacts, not only on the availability of food and physical security, migration and human health, but also on the economic growth of MCs, the performance of their assets, and the profitability of companies (among others). While these impacts are felt by all, they may have a greater impact on the livelihoods and social progress of the poor and most vulnerable.

## Rationale for developing the Action Plan

4. As a development institution focused on stimulating economic and social development in its MCs, IsDB is uniquely positioned to help its MCs take action on climate change that is consistent with and in support of its core development mandate and the SDGs. By integrating climate considerations across its interventions to alleviate poverty, improve health, promote education, improve governance and enhance prosperity, IsDB is poised to be a more effective partner in supporting MCs' transitions to increasingly resilient, green, sustainable and prosperous development pathways.
5. Furthermore, unlike many regional and multilateral development institutions, IsDB is a South–South development bank, focusing specifically on developing a decentralized approach to becoming a more proactive, adaptive and agile institution committed to moving away from reactive, one-off investments, to address the root causes that are impeding sustainable growth in its MCs. While each of its MCs resides in the 'global South', they all face increasing – and at times unique – social, environmental and development challenges. IsDB's 57 MCs cover

<sup>1</sup> WMO (2019) 'WMO confirms past 4 years were warmest on record'. <https://public.wmo.int/en/media/press-release/wmo-confirms-past-4-years-were-warmest-record>

a population of more than 1.7 billion people across four continents, and their development challenges will be exacerbated without specific efforts to address the impacts of climate change.

## Supporting policies and frameworks for IsDB's five-year Climate Action Plan

6. The strategic priorities set out in IsDB's 10-Year Strategy, followed by the President's Five-Year Program have resulted in organizational restructuring to align the objectives of the institution, including creation of the Climate Change Division in January 2018. Such alignment has necessitated updating and/or creating new sector, country, thematic and cross-cutting policies. Following stakeholder consultations within IsDB and with MCs, IsDB's current climate finance efforts were measured against its multilateral development bank (MDB)<sup>2</sup> peers in 2018 through consultation with and benchmarking of MDBs and other development institutions that are members of International Development Finance Club (IDFC).<sup>3</sup> Also in 2018, IsDB prepared a Climate Change Technical and Policy Paper which reviewed current climate-related challenges for IsDB's MCs, including a survey of MCs, internal IsDB stakeholders and others to provide guidance in the development of the IsDB Climate Change Policy. In February 2019, IsDB's Board of Executive Directors approved its Climate Change Policy (CCP),<sup>4</sup> which identified four key pillars to be supported with this five-year Action Plan. An internal IsDB guidance document (Climate Change Policy Implementation Framework) was subsequently prepared to enable IsDB to operationalize its CCP within the new operational model of the Bank (Figure 1).
7. Furthermore, IsDB joined the other MDBs in taking leadership on the topic of climate change and climate finance through joint technical working groups, initiatives and high-level fora. IsDB recognizes that the MDBs can play a key role in providing practical implementation and investments which can accelerate climate action. At the 2017 One Planet Summit, the MDBs and members of IDFC affirmed "their joint commitment to align their financial flows with the Paris Agreement".<sup>5</sup>
8. The concept of Paris Alignment is in line with the Mainstreaming Principles that the MDBs endorsed in 2015 and MDB Paris Alignment work adopted in 2018 at the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP24) in Katowice, Poland, which stipulate the integration of climate-related considerations across all the activities of financial institutions.<sup>6</sup> In the MDB Paris Alignment work, this concept has been structured around six building blocks: (i) alignment with mitigation goals; (ii) adaptation and climate-resilient operations; (iii) accelerated contribution to the transition through climate finance; (iv) engagement and policy development support; (v) reporting; and (vi) align internal activities.

## Objective

9. This document presents IsDB's five-year plan for aligning its operations with climate action to support its MCs in transitioning to more resilient and sustainable economies. The Climate Action Plan enables the implementation of the IsDB CCP and has two main objectives:

2 The African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group and the World Bank Group (International Finance Centre, Multilateral Investment Guarantee Agency, World Bank) (jointly, the MDBs).

3 [www.idfc.org](http://www.idfc.org)

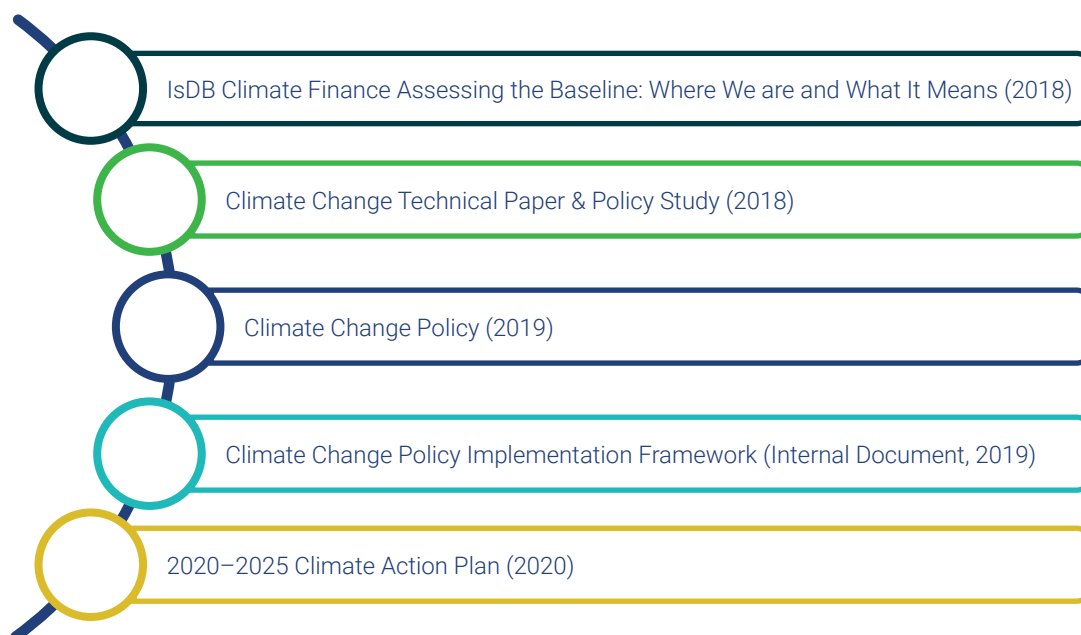
4 IsDB (2019) *Climate Change Policy*. Islamic Development Bank, Jeddah. [www.isdb.org/sites/default/files/media/documents/2019-04/IsDB%20Climate%20Change%20Policy.pdf](http://www.isdb.org/sites/default/files/media/documents/2019-04/IsDB%20Climate%20Change%20Policy.pdf)

5 One Planet Summit (no date) 'Commitment no. 10: International mobilization of development banks'. [www.oneplanetsummit.fr/en/commitments-15/international-mobilization-development-banks-37](http://www.oneplanetsummit.fr/en/commitments-15/international-mobilization-development-banks-37)

6 IsDB is a signatory to the Mainstreaming Principles and supports the Paris Alignment Building Blocks, each of which is embodied in this Climate Action Plan.

## Figure 1. IsDB documents supporting the IsDB five-year Climate Action Plan

The following documents support IsDB's overall Climate Change programme



- ◆ To support IsDB in developing low-carbon climate-resilient and sustainable projects in its MCs, in particular in infrastructure, agriculture, water and sanitation, urban services, health and other sectors that enable MCs to adapt and be resilient to the impacts of climate change; and
- ◆ To provide IsDB with a target-oriented framework to support its MCs in developing and implementing their sectoral and national development plans that take climate change into account, in line with the Paris Agreement.

10. IsDB will achieve these objectives by systematically mainstreaming climate change into its operations and strategies, focusing on

the most pressing needs of its MCs (particularly around building resilience, robust infrastructure and economic growth). While this five-year Climate Action Plan and the climate finance goal outlined herein are targeted by 2025, the intention is to set IsDB on a trajectory that enables it to meet the needs of its MCs by integrating climate considerations across all operations, in line with its overall mission to alleviate poverty by nurturing economic growth and providing infrastructure to enable people to lead better lives and achieve their full potential. Collectively, IsDB's climate change objectives and this five-year Climate Action Plan support IsDB's MCs in **deepening sustainable development imperatives for a better and safer future.**



## IsDB climate finance target

11. The adoption of the UNFCCC Paris Agreement triggered an unprecedented level of commitment from all international financial institutions (IFIs) by calling for the alignment of all financial flows to achieve zero net emissions and urging industrial countries to jointly increase climate finance to US\$100 billion per year by 2020. To successfully achieve the targeted commitment and keep global temperature rise from pre-industrial levels below 1.5–2°C by 2100, all MDBs must contribute to increasingly ambitious climate targets within their portfolios. As the largest South–South development finance institution, IsDB has a crucial role in supporting its MCs to mitigate their emissions and increase their resilience to climate change.
12. IsDB also joined the MDB Climate Finance Tracking Group in October 2017 and reported its climate finance contributions in 2017, 2018 and 2019. The tracking of MDB climate finance is based on the harmonized principles and jointly agreed methodologies of the institutions that participate in this joint reporting. The term ‘MDB climate finance’ refers to the amounts committed by MDBs to finance climate change mitigation and adaptation activities in the development operations they undertake in developing economies and emerging economies in transition. MDB climate finance includes commitments from the MDBs’ own resources, and from external resources channelled through and managed by the banks. Climate co-finance includes the amount of financial resources contributed by external resources alongside MDB climate finance. These may include entities from both the private (commercial) and public (non-commercial) sectors.<sup>7</sup>
13. During the period 2013–2017, IsDB approved total financing of **US\$25.3 billion** for **651 projects** across all sectors, including technical assistance operations (TA). Of this, **US\$20.74 billion** went to **283 projects**, through sovereign and public–private partnership (PPP) financing, in four key sectors: agriculture; energy; transportation; and water, sanitation and urban services. The assessment of the 2013–2017 portfolio shows that, within these totals, climate financing in these four sectors amounted to **US\$4.72 billion** across **88 projects**, accounting for **19%** of total IsDB approvals during this period (Figure 2). The energy sector accounted for the largest portion of climate financing (US\$1.71 billion), followed by water, sanitation and urban services (US\$1.3 billion), transportation (US\$908.83 million) and agriculture (US\$810.33 million). The **Middle East and North Africa (MENA) and Europe** received **US\$2.78 billion**, the highest amount of climate financing, accounting for 59% of the total; **Africa and Latin America** received **US\$1.24 billion (26.32%)**; and **Asia** received **US\$0.7 billion (15%)**. Within the total amount of climate financing:
  - ◆ **48%** contributed to **climate mitigation**, **40%** to **climate adaptation** and **12%** to **‘dual benefit’ projects** with both adaptation and mitigation objectives.
  - ◆ **38 projects with climate benefits** were financed in **Africa and Latin America** (43% of the total number of projects with climate finance) and **36** were financed in **MENA and Europe**.
14. Consistent with its approved CCP, and commitments to support MCs in their low-carbon, climate-resilient sustainable development, **IsDB will implement an institution-wide climate finance target of 35% of overall annual lending (measured by volume of financing) by 2025**. The intention of setting a climate finance target is to position IsDB on a long-term trajectory to proactively align its own financing with increasingly ambitious climate change objectives, in recognition that

<sup>7</sup> 2017 Joint Report on Multilateral Development Banks’ Climate Finance, June 2018.

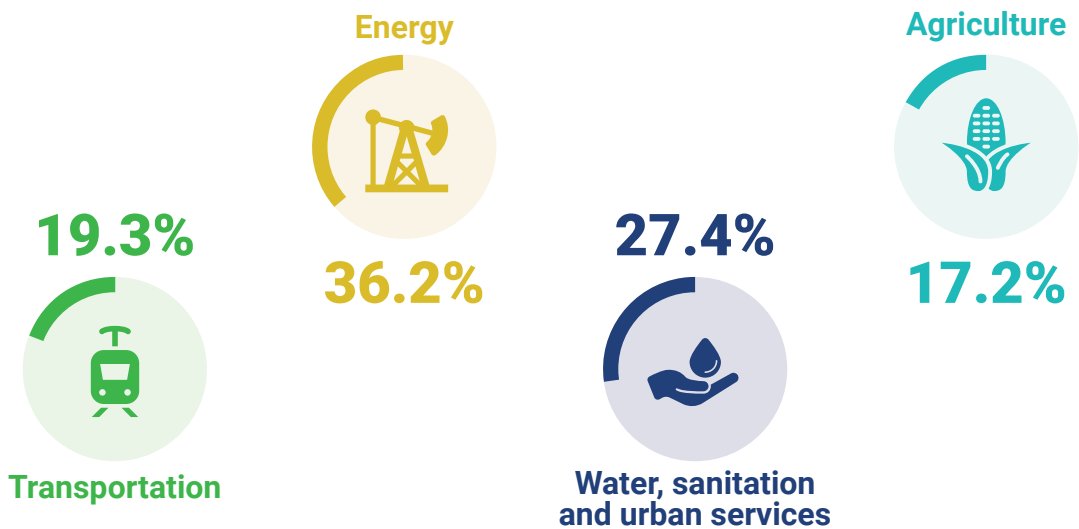
**Figure 2.** Distribution of climate finance in IsDB finance allocation, 2013–2017



**US\$25.3 billion for 651 projects**



**Figure 3.** IsDB climate finance by sector (as percentage of total approved climate finance), 2013–2017



its MCs are highly vulnerable to climate change impacts. These targets were developed through an extensive internal review and engagement process within IsDB and external consultation with its partner institutions. The following sections explain the methodology used to calculate the climate finance target.<sup>8</sup>

## Approach using MCs' nationally determined contributions commitments

15. IsDB's MCs' own climate change commitments are illustrated in their nationally determined contribution (NDCs), including their emissions reduction targets.<sup>9</sup> IsDB's approach to developing a climate change target includes a bottom-up analysis of each MC's NDC emissions goals and corresponding sector investment objectives. This analysis forms one component of IsDB's overall climate finance targets, along with an assessment of historical borrowing by MCs, and IsDB's sector and country investment strategies. For more information on the approach to IsDB's targets see Annex 1.

## Increasing IsDB climate finance

16. In 2018, IsDB joined the other MDBs in the Joint MDB Working Group on Climate Change and reported for the first time its overall annual climate finance commitments as one of the major MDBs working on climate change and development. IsDB has committed

to using the Joint MDB Climate Finance Tracking Methodology and, aligned with this methodology, it has committed to track and report its climate-related lending across its MCs annually under the *Joint Report on Multilateral Development Banks' Climate Finance*.<sup>10</sup>

17. The 2013–2017 figures are in the same range as other MDBs' historic climate financing commitments in the seven years since the MDBs have been tracking and jointly reporting on their overall climate finance commitments. However, in the last two years each of the MDBs has set increasingly ambitious climate finance targets as a percentage of their overall commitments, as a reflection of the widespread recognition that climate change significantly impacts development goals.
18. The targets set above for the five-year Climate Action Plan, by 2025, allow IsDB to ramp up its overall activities while taking into account the time frame required to fully implement and mainstream climate considerations across its operations. A 35% target by 2025 is squarely in line with other MDBs, and is consistent with calculations of IsDB's MCs' individual commitments to climate change, as shown in their NDCs. While many MDBs are already signalling a significant jump in their climate targets by 2030, IsDB may consider revising its targets for 2030 as the CCP is implemented – to reflect the practical actions required to support its MCs, particularly under increasing threats from climate change and increased country commitments.

8 The development of these targets incorporated two approaches: (i) a 'bottom-up' target, driven by engagement with IsDB sectors and hubs to understand their existing pipeline of projects, investments and activities, and gather key stakeholders' reasonable targets given their on-the-ground perspectives of the projects and investments MCs are pursuing; and (ii) a methodological approach that took into account each MC's NDC commitments (conditional and unconditional) coupled with countries' historical borrowing patterns and the potential for improvement.

9 An MC's NDC emission reduction target can serve as an indication for the incremental climate-related actions and activities pledged in any specific MC by 2030.

10 This *Joint Report on Multilateral Development Banks' Climate Finance* is an overview of financing committed by the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDBG) and the World Bank Group (WBG). The International Finance Corporation (IFC) reports its climate finance commitments as part of the World Bank Group.

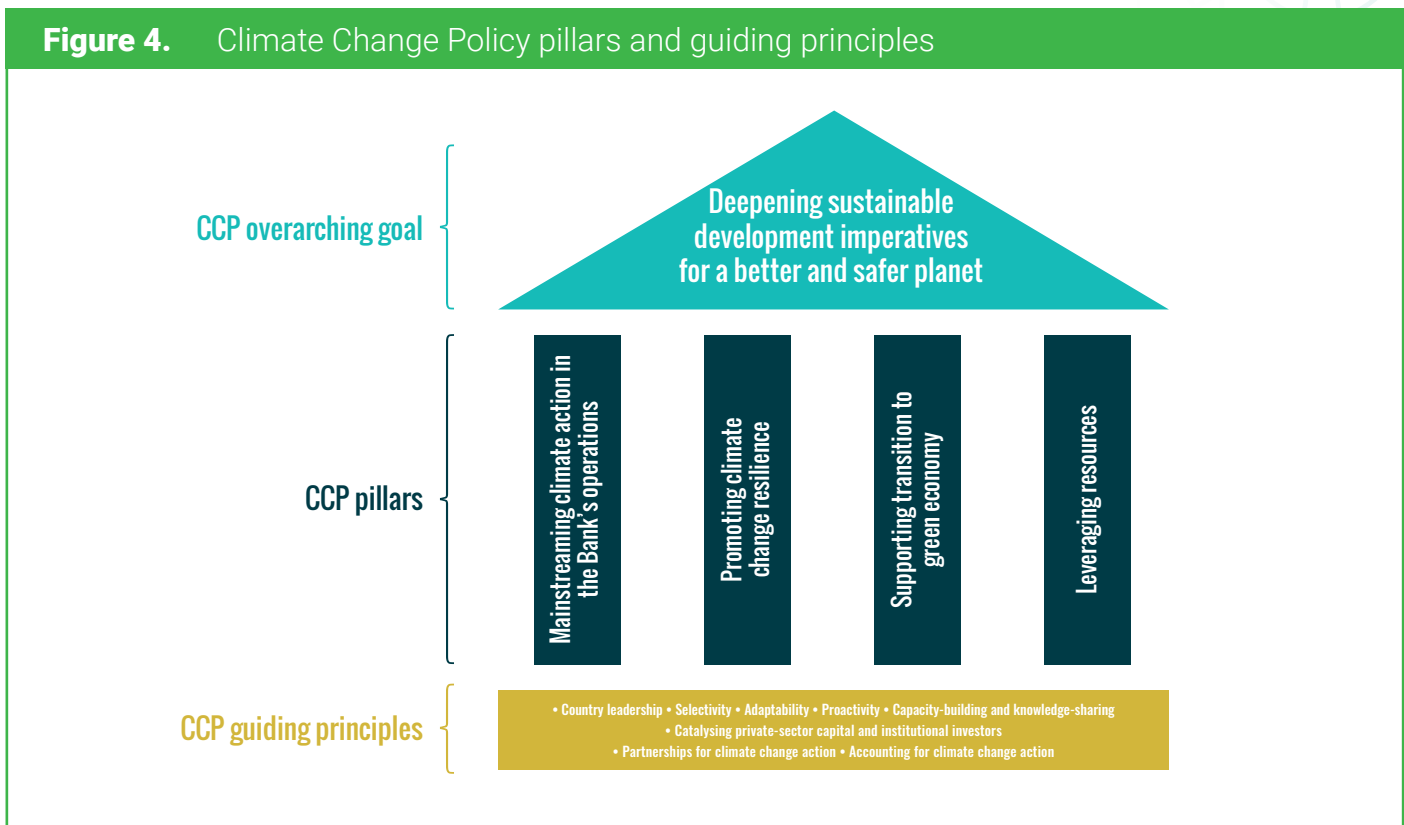




# The IsDB Climate Action Plan

19. The IsDB CCP was developed in the context of (i) IsDB’s decentralized organizational structure, (ii) the IsDB 10-year strategy, (iii) the IsDB President’s five-year Program of making markets work for development, and (iv) within the broader context of the SDGs. This policy has also been informed by the good practices from the MDB community particularly around climate change strategies (Paris Agreement, Voluntary Principles for Mainstreaming Climate Action within Financial Institutions, etc.), and at the same time has been developed to be appropriately tailored for the realities of the IsDB and its MCs. The pillars and guiding principles of the IsDB CCP are illustrated in Figure 4.
20. The development of the IsDB CCP and this Action Plan benefitted from wide-ranging consultations with government and policymakers from MCs and key internal stakeholders within IsDB complexes, global

practices and country hubs, as well as in-depth discussions with key stakeholders at several MDBs, including the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank and the World Bank. This consultation was undertaken by a combination of in-person meetings and external surveys. The vast majority of those surveyed (97%) identified resilience to climate change as the top priority for IsDB in its efforts to support MCs. Recognizing the increased frequency of extreme weather events, the record year-on-year temperature rises, and the fragility of environmental systems, respondents emphasized deforestation and water pressures as key areas deserving greatest attention. Indeed, the challenges presented by climate change are frequently interrelated across sectors and economic development, and

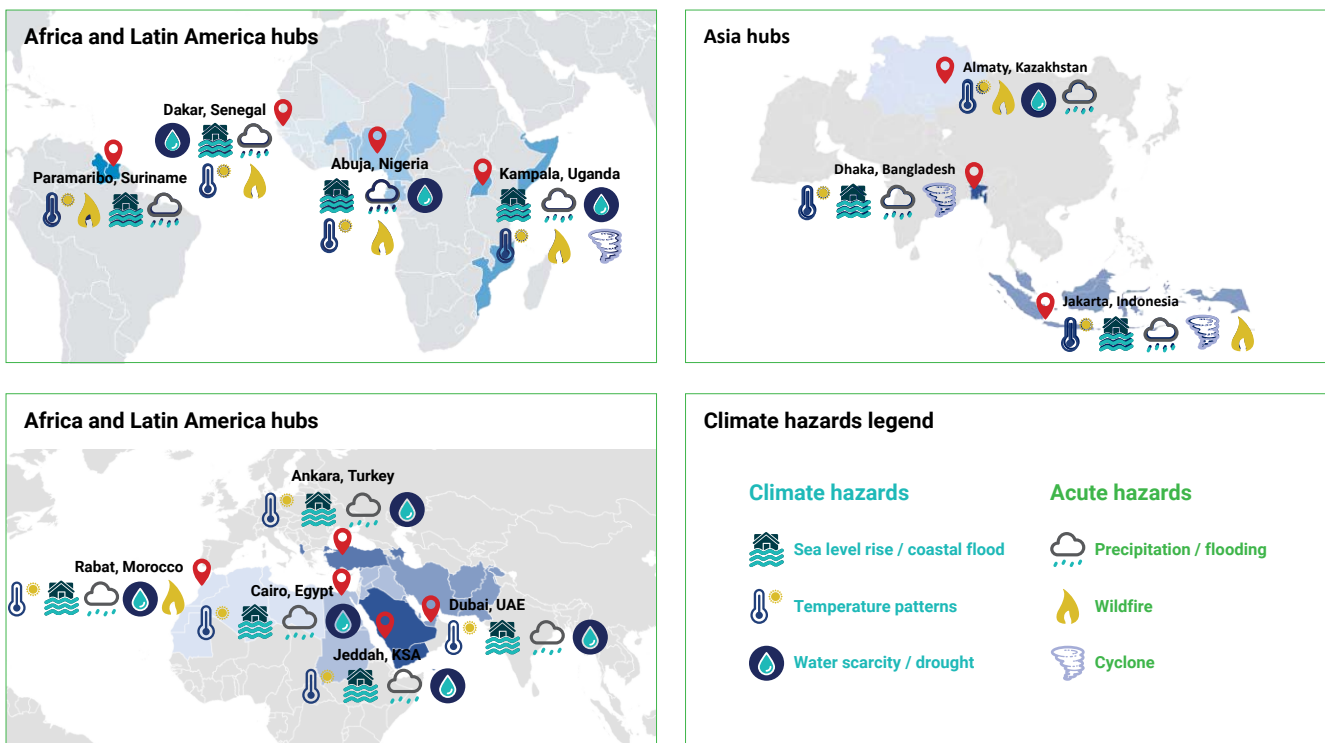


this was borne out in the survey. Addressing drought, changing precipitation patterns, extreme heat and wide-scale land use change will require the concerted efforts of multiple stakeholders.

21. Figure 5 summarizes the key climate-related vulnerabilities in each of the IsDB regions and regional hubs.
22. This five-year Climate Action Plan builds on the approved CCP and its four pillars. Specific approaches and examples of how IsDB will deliver on these policy pillars are given below, and all efforts to operationalize and implement the CCP will be informed by the following guiding principles: (i) country-led, (ii) selectivity, (iii) flexibility, (iv) proactivity, (v) building capacity

and sharing knowledge, (vi) catalysing private sector capital and institutional investors, (vii) partnerships for climate action, and (viii) accounting for climate change action. While the actions the institution envisions under each pillar are outlined below, meeting the five-year Climate Action Plan is likely to require (i) a sustained and growing pipeline of climate-related financing opportunities, (ii) sustained ability to mobilize additional resources and access to concessional sources of funding (including climate finance), and (iii) increased requests from MCs for these services. The Banks' setting of a climate change finance target has been effective in actualizing these requirements to achieve the objectives of the CCP, particularly in peer institutions within the MDB community.

**Figure 5.** Key climate-related vulnerabilities in each of the IsDB regions and regional hubs

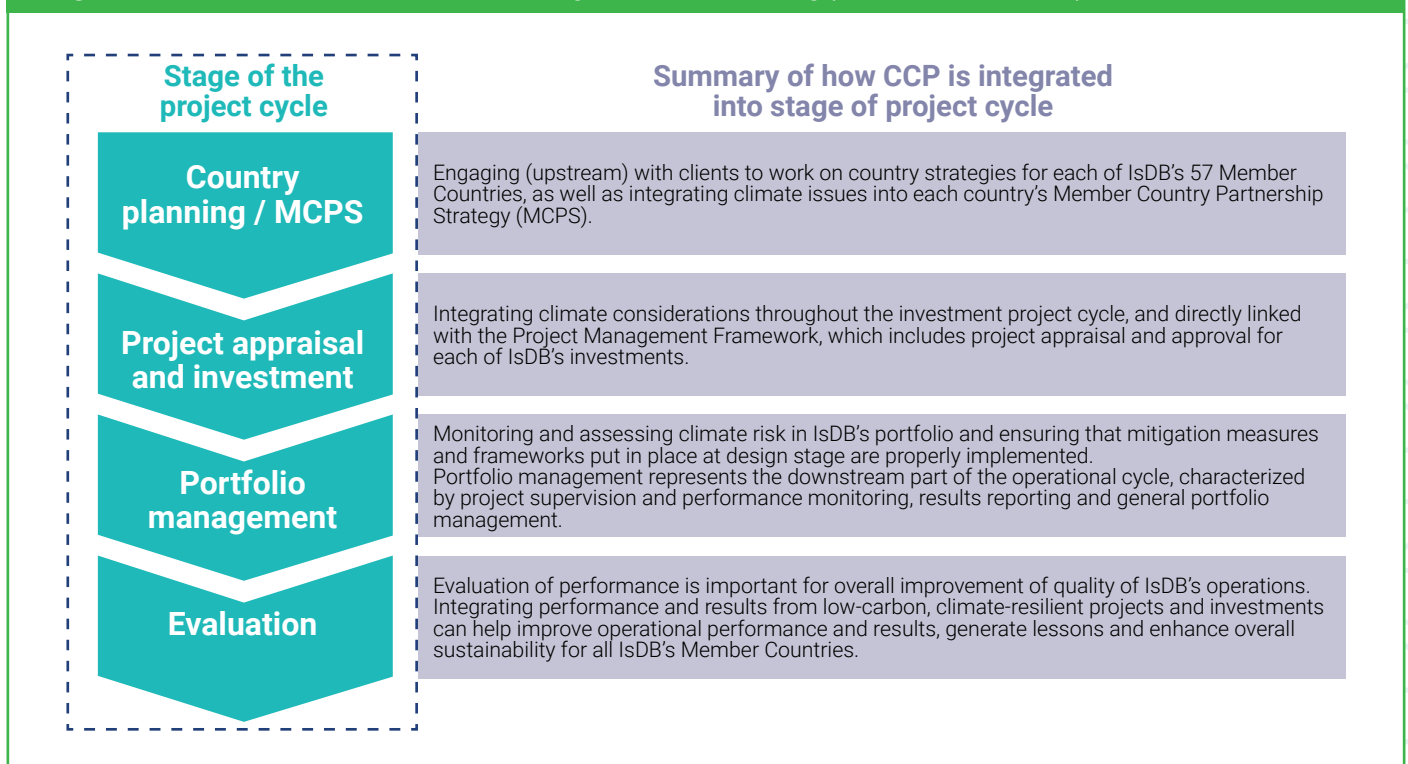


# Pillar 1:

## Mainstreaming climate action in IsDB operations

23. One of the most important aspects of 'mainstreaming' climate action for IsDB is its ability to integrate climate considerations into its operations, MC support and investment activities, which requires both financial resources and knowledge assets. The CCP demonstrates IsDB's commitment to address climate change, which is consistent with Principle 1 of the Climate Action in Financial Institutions Initiative, demonstrating management leadership, the implementation of explicit strategic priorities, policy commitments and targets that enable the full integration of climate considerations into IsDB's lending and advisory activities over time.
  - ◆ IsDB's Functional Areas, including the President's Complex (inclusive of risk management and strategy), Operations and Evaluations Department, country programming, global practices and regional hubs;
  - ◆ IsDB's project cycle, from upstream work with MCs on country and sector strategies, through project-level investments and portfolio management, to post-project evaluations;
  - ◆ Special considerations of climate risk management, throughout the project cycle, recognizing the need to assess climate risks to increase sustainability of both MC investments and IsDB's overall impacts; and
  - ◆ IsDB will undertake additional efforts to help accelerate mainstreaming, including (i) setting climate finance targets, and tracking progress
24. Specifically, climate change considerations have been incorporated and will be further integrated into:

**Figure 6.** Overview of climate change mainstreaming process in IsDB operations



against those targets; (ii) establishing dedicated funding, mobilization vehicles and/or approaches that can be provided to clients to undertake climate-smart investments; and (iii) adopting common metrics and standards for assessing climate impacts. Figure 6 shows how IsDB will engage with MCs to accelerate climate-related investments, and how climate considerations are integrated into the IsDB project cycle.

## Mainstreaming with Member Country partners

25. One key entry point of IsDB interventions in climate change activities in MCs will be the nationally determined contributions (NDCs). It is widely understood that NDCs and other climate-related policy documents, such as national adaptation programmes of action (NAPAs/NAPs) and national appropriate mitigation actions (NAMAs), are often higher-level strategies which lack concrete and actionable details on how to turn these plans and ambitions into actions and investments. Some of these documents were not developed as comprehensively as they could have been – specifically, without taking stock of various mitigation potential and adaptation needs in different sectors in the country in line with the national development plans. IsDB will support the improvement and operationalization of MCs' NDCs and relevant strategies and plans, specifically focusing on ways to utilize its financing and technical assistance tools to transform these strategies and plans into investments and actions. Moreover, IsDB may also work with MCs to develop their resilient low-carbon development pathways taking various key sectors into account.
26. Many MCs also anchor their NDCs onto existing policies such as their long-term vision, national development plan(s), structural reforms (both sectoral and financial), environment strategy and other national agendas or initiatives. IsDB will assist MCs with climate mainstreaming through financing projects, and providing technical assistance and advisory activities to aid them in updating and improving their NDCs and translating them into policies/strategies and actions. IsDB's support strategies are outlined below.
  - a. **Sector analysis and diagnostics:** IsDB will ensure climate opportunities and risks are considered in relevant sector analyses and diagnostics. Through targeted research and assessments, IsDB will support MCs to understand and identify: (i) the risks posed by climate change at the country and sectoral levels; (ii) the opportunities to invest in climate-smart resilience measures; and (iii) strategies or ways that MCs can meet their NDC commitments. For the same purpose, IsDB will partner with relevant national (through Reverse Linkage), regional or international institutions to help MCs benefit from international best practices, programmes and initiatives related to green trade and dedicated climate funds. This includes leveraging existing partnerships of which IsDB is already part and has been actively involved in (including MDB Climate Finance Initiative, Mainstreaming Climate Action in IFIs initiative, NDC Partnership, Africa NDC hub, and Reverse Linkage).
  - b. **Member Country Partnership Strategies (MCPS):** IsDB MCPS are jointly developed with MCs and help guide IsDB work in that MC over the medium term (five years). IsDB is currently mainstreaming climate considerations into these strategies, based on the climate risks and opportunities that emerge from identifying and supporting global value chains in areas of revealed comparative advantage of MCs and diagnostic processes that identify sector binding constraints.
  - c. **Country financing and advisory programming:** IsDB will ramp up support to the integration of climate considerations into country financing and advisory programming that will help to identify financing and advisory opportunities that address climate change. This will include IsDB's own contributions as a function of its climate finance targets, but also, whenever possible, supporting resource mobilization, parallel financing and programme coordination for climate opportunities with other development partners.

## Box 1. Physical and transition climate risk

For IsDB in particular, and multilateral development banks in general, the principal climate risks are transition risks and physical climate risks. **Transition risks** are those risks related to possible changes in policy and legal frameworks, evolving country and market preferences and behaviours, as well as potential technology advances and substitution effects which may affect key financial parameters and ultimate credit quality of borrowers and investees. Physical risks are linked to physical impacts (both acute and chronic) resulting from temperature increases / warming, associated water stress, drought, sea level rise and climate-linked extreme weather events. **Physical climate risks** are typically linked to specific hazards (or combinations of hazards) and are contextual and location specific. Financial impacts of ‘hazards’ that a project may encounter related to a changing climate depend on the circumstances of the IsDB client, including its own financial health and its ability to withstand financial impacts from business interruption. Anticipating the time frame that physical climate risks may become material is a function of evolving probabilities that those impacts will occur. For both transition and physical risks, understanding how they impact an IsDB investment will require understanding them across a number of different time horizons, including (i) the time horizon of the MC’s development goals and sustainable investment needs; (ii) the time frame of an asset’s life; and (iii) the time frame of the financial exposure of the Bank’s investment.

## Climate risk management across IsDB operations

27. IsDB’s investments are particularly sensitive to potential financial vulnerability from climate risks given the Bank’s unique model of asset ownership during implementation (and often during the project operational period), based on its Islamic finance modalities. This calls for a robust climate risk management system to allow for activities and investments to meet both the long-term and short-term sustainability and economic growth objectives of MCs.
28. IsDB will integrate climate risk assessments into all parts of the project cycle; different climate risk assessments may be required for each stage of the project cycle. Such climate risk assessments might need to take different approaches for different stages in the project cycle, and include specific parameters, such as the relevant time horizons, and the specificity of the assessment (e.g. country-wide, sector-based, project-specific) and other requirements.<sup>11</sup>

29. The Task Force on Climate-related Financial Disclosures outlines a framework to identify financial risks and opportunities resulting from climate change. Physical climate risks are the risks that arise from the interaction of climate-related hazards. Two main sources of physical risks can be identified as (i) gradual global warming, which leads to chronic physical risk caused by longer-term shifts in climate patterns (e.g. sea level rise, changes in temperature and precipitation patterns), and (ii) an increase in extreme weather events, which leads to event-driven acute physical risk (e.g. cyclone,

## Box 2. Key climate hazards

The following provides an overview of identified key climate hazards for countries in each regional hub.

### Climate hazards legend

#### Climate hazards



Sea level rise / coastal flood



Temperature patterns



Water scarcity / drought

#### Acute hazards



Precipitation / flooding



Wildfire



Cyclone

Source: World Bank Global Facility for Disaster Reduction and Recovery, ThinkHazard database. [www.thinkhazard.org](http://www.thinkhazard.org)

<sup>11</sup> It is important to recognize that not all climate risk assessments are useful in all circumstances; for example, a country-wide climate risk assessment may be too broad to identify project-level risks.

hurricanes, floods). Every IsDB project is subject to specific acute and chronic climate hazards as a result of the characteristics of its location. In addition to having a strong understanding of potential climate risks and impacts by sector, regional hubs must be aware of the macro-regional and country trends that can impact the financial and environmental sustainability of an MC and of investments within that MC, particularly as they relate to an MC's overall sustainable development objectives. These climate hazards and their related vulnerabilities should be clearly identified and analysed in each country's Diagnostic and MCPS.

### Climate change integration into sector strategies

30. Internal alignment between IsDB's objectives and sector strategies is crucial to ensure that

project selection and implementation supports IsDB's overall strategy. Since 2017, all IsDB sectors and cross-cutting divisions have been developing, revising or updating their policies. Each of the policies presented to the Board since 2018 has outlined climate change as a key dimension. Moreover, sector strategies to be developed are expected to have specific sector-based objectives related to climate change. Sector-based commitments by IsDB as reflected in Board-approved strategies are presented in Annex 2.

31. IsDB developed its own internal tool to monitor and assess the effectiveness of mainstreaming climate considerations in its operations at different stages. A summary of the tool is given in Box 3. Use of the tool will be piloted in 2020 for further application across the whole project cycle (programming, appraisal, implementation, evaluation) in subsequent years.

#### Box 3. IsDB's Simplified Verification Tool for climate risk and co-benefits

The Simplified Verification Tool (SVT) is a tool to evaluate how effectively climate considerations have been mainstreamed in projects at various phases as per the Bank's CCP implementation framework. SVT adopts a differentiated point-based approach that assesses a pre-defined set of criteria to climate change mainstreaming objectives. The SVT point-based system is based on adopted past lessons, case studies, expert judgement, and climate mainstreaming results, patterns and trends to determine the weight of a given variable against the overall weight of the project phase.

The tool verifies climate risk and co-benefits across the project cycle in phases covering (i) programming and country planning, (ii) project/programme appraisal, (iii) project supervision and portfolio management and (iv) evaluation. It also allows mainstreaming effort in each project phase to be assessed prior to the completion of the project. In terms of coverage and scope, it is tailored to cover all IsDB sectors. The SVT consists of 16 variables weighted differently based on their level of importance to climate risk and co-benefit mainstreaming objectives defined by the tool developer and users.

## Pillar 2: Promoting climate change resilience

32. The geographic location, economic structure and institutional configuration/capacity of IsDB MCs make them particularly vulnerable to climate change. This includes countries heavily dependent on climate-sensitive sectors such as agriculture and tourism, or those with economic hubs or megacities located in lowlands or coastal areas.<sup>12</sup> Helping MCs build climate resilience requires efforts that can enable them to both (i) prepare for and adapt to changes expected as a result of a warmer planet, and (ii) reduce their vulnerability and costs resulting from the impacts of climate change.
33. The IsDB will further assist MCs in building their resilience and reducing their vulnerability to climate change risks in a number of ways, including (i) sectoral approaches and interventions, (ii) policy-level approaches and interventions, and (iii) technical assistance tailored to adaptation and resilience.
34. The IsDB will further support MCs' efforts to address climate risks in the key economic sectors it operates in, including transport, energy, water and agriculture, trade, private sector development and urban development services. IsDB will assist MCs to undertake sector-level climate risk assessments at the country planning stage, as well as climate risk assessments for projects and proposed investments. The IsDB will also help MCs to focus on climate early warning systems and managing climate information systems necessary to assist the most vulnerable populations and economic sectors.
35. In addition, the IsDB will seek opportunities to invest in projects with 'climate co-benefits' and help build-in resilience of, or through, projects across all sectors. This is in addition to its work in cities and urban planning and disaster risk reduction efforts, where efforts to 'build back better' will include future climate risk considerations. IsDB will also seek opportunities to support the promotion of appropriate technologies and best practices that enhance the resilience of its projects and investments, and build MC resilience through projects and investments, including agriculture production systems, nature-based solutions, climate preparedness, disaster response activities and the establishment of social safety nets (e.g. insurance products that can offset losses due to climate impacts).
36. **Sustainable infrastructure:** Developing infrastructure projects may become increasingly complex as a result of climate change. In IsDB MCs, infrastructure services, including green infrastructure services – such as the supply and provision of drinking water and electricity, the disposal and treatment of waste water, transportation and mobility of people, goods and services – are the foundation for economic development, competitiveness and inclusive growth. Closing the infrastructure gap, particularly in least-developed MCs, requires significant financing for projects such as roads, power plants and water sewage systems, but also spending differently to transform the way infrastructure is planned, developed and operated. The infrastructure is exposed to risks from climate change. Thus, infrastructure developed today could either contribute to or help mitigate climate change risks.

<sup>12</sup> See IsDB *Climate Change Technical Paper and Policy Study* for more details on climate vulnerability of IsDB MCs (accessible via [www.isdb.org](http://www.isdb.org)).

**Figure 7.** Promoting Member Country climate change resilience

■ Africa and Latin America   ■ Asia   ■ MENA and Europe

**MENA & Europe**

In the Middle East and North Africa (MENA) and Europe region, climate impacts on water availability and heat stress will be most acute. In fact, the MENA region is the most water-stressed region in the world. Heat-related issues – on productivity and populations – will also continue to be exacerbated, as a warming planet increases the number of days with extreme heat. While precipitation projections are less certain, IPCC research indicates that temperatures in the MENA and Europe region (and parts of Sub-Saharan Africa) are expected to continue to increase and are likely to increase between 3°C and 4°C (annual average) this century, far surpassing the global average limits of 2°C envisioned by the Paris Agreement.

**Asia**

Countries included in the IsDB Asia regional grouping include some of the areas most vulnerable to climate change, especially Bangladesh and the islands of Indonesia. Changes in precipitation, increases in heat/temperature extremes and glacier melt will significantly change the hydrological landscape for IsDB MCs in Asia, causing water scarcity. Moreover, coastal/delta cities, and the coral reef ecosystem, are at risk because of sea level rise, ocean warming and acidification, and increased intensity of tropical cyclones. As a result, agriculture such as rice and fisheries are under great threat.

**Africa & Latin America**

In sub-Saharan African, climate drivers are involved in most of the shocks that keep or push households into poverty, including: natural disasters (e.g. loss of assets and disability after floods), health shocks (e.g. health expenditures and lost labour income as a result of malaria), crop losses (as a result of drought or crop disease), and food price shocks. All IsDB MCs in Africa are considered at extreme risk from climate change with both a high level of vulnerability and a low level of readiness. Similarly, MCs in Latin America are rapidly being exposed to increasing risk of sea level rise, flooding, and loss of habitat and other ecosystem services.

Green infrastructure can also provide significant, cost-effective services, including water and air purification, carbon storage, coastal protection, disaster risk reduction and food security, in both urban and rural settings. As much as possible, IsDB will promote the development and strengthening of green infrastructure for increased resilience in MCs.

NAMAs, NAPs/NAPAs and other policies – which will have clear linkages to building resilience at local, national or regional level. Examples include supporting regulations and standards, specifically in infrastructure development, and city-level planning and design that includes climate considerations. The IsDB will also support policies and approaches that help build financial capacity among MCs’ local banks and financial actors, including specialized financial institutions/vehicles that target climate investment (both resilience/adaptation and/or low-carbon/mitigation investments).

**Policy approaches**

- 37. IsDB policy work with MCs will support the enhancement and implementation of climate-related policies and plans in its MCs – NDCs,



## Technical assistance and Reverse Linkages programme

38. IsDB will use its technical assistance and capacity-building approaches, including its Reverse Linkages programme, to mobilize the technical climate change capacity expertise and training capabilities of the Bank, its partners and (importantly) expertise located in MCs to build capacity within MCs, promote opportunities for the exchange of experience, information and appropriate technologies suited to the climate change development needs of MCs, and alleviate the managerial, technical and institutional constraints impeding project implementation and efficiency, particularly with regard to climate-related investments.
39. Each of these actions to promote climate change resilience among IsDB MCs can and

will contribute to the IsDB's overall efforts to mainstream climate considerations into its operations. While these efforts are specific to sectors or policy support, the IsDB will undertake climate-proofing of its financing activities and projects in MCs with the aim of highlighting the risks and opportunities that climate change poses to the environment and beneficiaries of its projects, and put in place necessary measures to mitigate and actively manage these risks. By viewing project financing through a climate change lens (i.e. cross-checking that climate change issues are being appropriately addressed), the Bank will help promote increased adaptation to climate change and ensure resilience to extreme events regardless of sector or MC.

### Box 4. Building resilience of a farmers' community in Kyrgyz Republic

In 2019, IsDB financed a US\$29 million project on irrigated agriculture development in Issyk-Kul and Naryn regions of Kyrgyz Republic. The project aims to improve the livelihoods of 13,200 farmers through sustainable agriculture development and water resource management with adaptation to climate change. The project will increase crop production and productivity through rehabilitation and development of irrigation infrastructure, and it will provide storage and processing facilities to address postharvest losses and improve the quality and competitiveness of the harvests through value addition. The irrigation infrastructure will help address water shortages and drought that are largely driven by a rapidly changing climate regime. The resilience of irrigation infrastructure will be strengthened by designing the water dams with embankment class ranging from 3 to 4, and a 20% margin from 'business as usual' to accommodate high water flow during the peak flood season. Moreover, the constructed and rehabilitated irrigation networks are designed for greater climate resilience: thicker pipes and concrete linings, and use of water-resistant, frost-resistant cement. The project will train farmers in sustainable use of natural resources and improved farm management with a focus on green technologies to mitigate climate change, such as wind-powered water pumps, solar-powered pumps, sustainable production of fodder crops, improved pasture management and manure management.

**Figure 8.** IsDB's multilayered approach for building resilience to climate change





## Pillar 3:

### Green growth and supporting the transition to a green economy

40. Transitioning to a low-carbon economy can be more challenging for some countries than others, as the contribution of energy to national economic growth may lead to energy investment decisions that prioritize fossil fuel-based production over other alternatives, including renewables. In addition, carbon assets are a major component of the local economy of some countries, providing employment, and contributing considerably to economic activity for the country, which cannot be ignored from a development perspective.<sup>13</sup> This situation can present real trade-offs between short-term development needs and long-term climate change impacts.
41. However, the transition to low-carbon, green growth economy is also a major opportunity to revitalize a country or region by providing new and better employment conditions and opportunities for skills development with increased knowledge intensity of firms.<sup>14</sup> Setting a strong foundation of effective policy and regulations, while promoting green investments and encouraging new climate-friendly businesses and enterprises will be the key for an MC's sustainable development.
42. As an MDB, IsDB is working with its peers to ensure that, as part of its core development mandate, climate action in its operations is expanded and deepened, in alignment with the Paris Agreement, and that it actively supports a future of low-carbon and climate-resilient development for its MCs. It is therefore imperative that IsDB's support to countries is informed by reliable climate information, including on climate-related risks and opportunities. Being

#### Box 5. Partnership with GIZ for sustainable (low-carbon and resilient) transport

IsDB and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) joined forces to improve urban transport planning and promote the development of sustainable urban transport systems in IsDB MCs. This cooperation included organizing 12 training workshops targeting country-level practitioners. With more than 400 representatives from over 40 countries, these workshops aimed at enhancing capacity and shifting mindsets towards sustainable transport solutions in MCs. The training also included 'climate-proofing of transport projects' as well as low-carbon transport planning. It also entailed production of guidance documents and technical reports. Moreover, IsDB is also working with the German Ministry of Environment (BMU) on supporting sustainable transport planning in Lebanon through GIZ.

This partnership between IsDB and GIZ is expected to bring further opportunities to tackle transport challenges and to mitigate and adapt to climate change. This is planned through more high-level capacity-building events that will evolve into the preparation and implementation of projects in IsDB MCs. IsDB plans to work with GIZ at the upstream (pre-project approval) level to ensure quality, climate-proofed project proposals to be funded by IsDB. The two institutions will also cooperate on reverse linkage identification and dissemination among IsDB member countries.

13 OECD (2015) *Monitoring the Transition to a Low-carbon Economy: A strategic approach to local development*. Organisation for Economic Co-operation and Development, [Paris]. [www.oecd.org/cfe/leed/Monitoring-Green-Transition-Final2.pdf](http://www.oecd.org/cfe/leed/Monitoring-Green-Transition-Final2.pdf)

14 OECD (2015).

climate-informed entails having credible science-based climate scenarios at country and local levels, in addition to project- and sector-level climate risk analyses and vulnerability assessments. The assessment of the costs of climate change at country, sector and project levels also provides essential information to ensure that the most cost-effective investments are made for low-carbon, climate-resilient and sustainable development in MCs.

43. Despite the global momentum and all the commitments made to curb the current trends of greenhouse gas emissions and increase the resilience of human and natural systems, the need for making the business case for 'green', low-emission and climate-resilient investments to decision makers in IsDB MCs is increasingly relevant. The achievement of the SDGs requires large investments in many sectors, with the constraints of limited government budgets, and the reality of climate change should not only be dealt with by IsDB MCs as the threat it represents, but also as an opportunity for a more sustainable economic growth.
44. As part of its upstream country dialogue and engagement, IsDB will work to support its MCs in developing their low-carbon development strategies and investment plans at different levels. This upstream work is expected to contribute to shifting IsDB's projects pipeline towards more green investments to further support MCs in their low-carbon, climate-resilient development. Such support would also be in line with Pillar 2 of IsDB CCP, namely "promoting Member Country climate change resilience".
45. IsDB will develop a series of studies on the economics of climate change (risks and opportunities) targeting regions, countries and sectors covered by the Bank. This will be done in conjunction with the strategic planning efforts of the Bank through the MCPS exercise. IsDB will be ramping up the level of climate finance to achieve the 2025 target, making the business case for green, low-emission investments to decision makers, and ensuring the sustainability of such investments.
46. In addition to overall country engagements (covering multiple sectors depending on country needs and specificities), IsDB will have sector engagements covered by these investments and technical assistance, including (i) renewable energy; (ii) energy efficiency measures in all sectors (water, manufacturing, production, etc.); (iii) low-carbon transport and mass transit; (iv) climate-smart agriculture with a carbon-reduction impact/co-benefit; (v) sustainable trade; (vi) clean/green private sector investment; and (vii) support for innovative technologies and/or research and development in complementary technologies (e.g. battery storage, carbon capture and storage, carbon sequestration).

### **Building partnerships to catalyse MCs' transition to low-carbon, green economy**

47. IsDB will help MCs integrate climate mitigation strategies through specific investments that contribute to the low-carbon, green economy transition. The Bank already has many partnerships promoting and supporting climate action in its MCs in different sectors such as its partnership with the International Renewable Energy Agency (IRENA), the German Corporation for International Cooperation GmbH (GIZ), Partnership on Sustainable, Low Carbon Transport (SLoCaT), Food and Agriculture Organization of the United Nations (FAO), the United Nations regional economic commissions covered by its MCs such as the Economic and Social Commission for Western Asia (ESCWA), Economic and Social Commission for Asia and the Pacific (ESCAP) and Economic Commission for Africa (ECA), as well as regional bodies and institutions, including the League of Arab States (LAS), Economic Community of West African States (ECOWAS), Centre for Environment and Development for the Arab Region and Europe (CEDARE), in addition to other United Nations and development agencies, bilateral and multilateral development banks.
48. Through these partnerships and new ones, IsDB will support MCs through knowledge- and capacity-building programmes to enhance

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MCs' ability to 'green' their economies as well as promote cooperation and exchange of experiences, ideas and best practices on technology and innovative solutions to support the low-carbon, green economic transition (including Green Trade Operations and Reverse Linkages programmes). This will also provide MCs with support to help them translate their NDCs, climate-related plans and sector-level strategies into actionable, 'bankable' pipelines of investments. The Bank will also utilize its green global value chains approach for identifying sustainable areas for support in a country and creation of green jobs that support green growth.

49. IsDB will support MCs in their low-carbon, green economic transition by supporting policy-level efforts that can help to create the right enabling environment for green investments. As a member of the NDC Partnership, the Bank will leverage funding, in addition to its own resources, to provide technical assistance from the Climate Action Enhancement Package (CAEP) to its MCs. This includes supporting MCs' low-carbon NDC and/or sector strategies in ways that can catalyse investment (both public and private).



## Pillar 4: Leveraging resources

50. IsDB's approach to mainstreaming climate considerations into country planning and investments will lead to the integration of climate considerations into its existing financing products and services. Meeting the substantial needs for climate finance will require the mobilization of both public and private capital in increasingly innovative ways. Global climate finance flows were estimated at US\$612 billion in 2017, and dropped by 11% in 2018 to US\$546 billion.<sup>15</sup> As a financial institution with AAA credit ratings, IsDB is well positioned to leverage funding for climate action additional to core financing from its ordinary capital resources (OCR). The potential for off-balance sheet resource mobilization is also particularly substantial in light of the Bank's established partnerships and the acute vulnerability of the majority of its MCs.
  51. The Bank is therefore well positioned to leverage resources from bilateral development agencies, the private sector and philanthropic foundations to support climate action in its MCs. This could be done through the creation and management of specialized financing and/or dedicated trust fund vehicles. For example, the Bank is able to leverage existing funds it already has, such as the Lives and Livelihoods Fund (LLF) supported by the Bill & Melinda Gates Foundation. The LLF is currently co-financing IsDB rural development projects in the poorest MCs in sectors highly vulnerable to climate risks, such as health, agriculture and infrastructure development. IsDB will mobilize climate finance from dedicated climate funds through the same approach to leverage its OCR financing.
  52. IsDB will steer innovation with the promotion of young 'agripreneurs' and associated business incubators using social venture capital. The Bank is also exploring leveraging resources through crowdfunding to finance climate solutions including off-grid renewable energy (Box 6).
  53. Finally, given its growing portfolio of climate investments and AAA rating, IsDB developed a Sustainable Finance Framework (comprising green finance) which has helped it to launch its first sustainable *Sukuk* (comprising green and social *Sukuk*), which has attracted institutional investors to an asset class that guarantees green sustainable development impacts, financial returns and is Shariah compliant (Box 7).
- ### Blended finance and concessional support
54. To ensure the enabling environment for sustained investments in low-emission infrastructure and for the establishment of climate-resilient development systems in its MCs, IsDB will strategically mobilize external resources to finance not only 'hard' investments, but also the required 'soft' activities such as policy, planning and capacity-development support. By leveraging grant funding for its MCs, IsDB will increase the concessional nature of its climate-related financing whenever possible. The Bank will seek, directly or through partnerships, access to multi- and bilateral climate funds such as the Green Climate Fund (GCF), the Adaptation Fund (AF), the Least Development Country Fund (LDCF) under the Global Environment Facility (GEF), the Global Climate Change Alliance (GCCA), the International Climate Initiative (IKI) and the Nordic Climate Facility (NCF) under the Nordic Development Fund. IsDB is already partnering

15 Buchner, B., Clark, A., Falconer, A., Macquarie, R., Meattle, C., Tolentino, R. and Wetherbee, C. (2019) *Global Landscape of Climate Finance 2019*. Climate Policy Initiative. <https://climatepolicyinitiative.org/wp-content/uploads/2019/11/2019-Global-Landscape-of-Climate-Finance.pdf>

**Box 6.** Unlocking energy access finance through crowdfunding

In September 2019, IsDB approved financing of 1 million euros to Greenlight Planet through TRINE, a crowdfunding platform based in Sweden solely specialized in the off-grid solar sector and actively operating in Sub-Saharan Africa and recently in South Asia. It is aiming to provide 66 million people with access to clean energy before the end of 2022. The financing is restricted to campaigns benefitting users residing in IsDB MCs. IsDB will maximize the crowdfunding potentials by extending financing to small and medium-sized enterprises (SMEs) that aim to provide clean electricity services to rural households and small businesses. This will be achieved through implementing a pilot project administered by TRINE. The pilot project will consist of three to four projects or campaigns in IsDB MCs, especially in Sub-Saharan Africa. IsDB will be financing part (25–35%) of the project/campaign along with the crowdfunders. The co-financing aims at attracting more investments from the crowd and an additional stream of institutional investments. The successful outcome will also inspire support of other crowdfund platforms in various locations and sectors, and, most importantly, enable pro-Islamic finance investors around the world to participate in crowdfunding transactions by developing Islamic tranches within such platforms.

**Box 7.** Launching of IsDB's first sustainable (green) *Sukuk*

In November 2019, IsDB successfully launched its Sustainable Finance Framework to allocate funds for green and social projects in IsDB Member Countries (MCs) through *Sukuk*. This was the first of its kind for the Bank following the very first globally issued green *Sukuk* in Malaysia in 2017.

Funds raised via *Sukuk* issuance are utilized by IsDB for its project financing, which include financing for medium- and long-term projects in its MCs. Financing is provided in various climate-relevant areas such as renewable energy, clean transportation, energy efficiency, climate-smart agriculture and agroforestry, sustainable water and waste water management, and creation of green jobs. IsDB has aligned its operations with the Sustainable Development Goals and is integrating climate considerations into the financial offerings to its MCs. With regular green *Sukuk* issuance, IsDB has expanded its climate financing in these sectors.

with other organizations to access some of these funds.

55. IsDB also plans to set up its own dedicated Climate Change Fund, which would enable it to blend concessional resources with its OCR to enable more climate projects. By demonstrating

its commitment to support its MCs in addressing climate change, IsDB will be well positioned to leverage resources from donors and internal resources for the creation and management of specialized financing vehicles and/or trust fund vehicles for the benefit of climate-related activities in MCs.



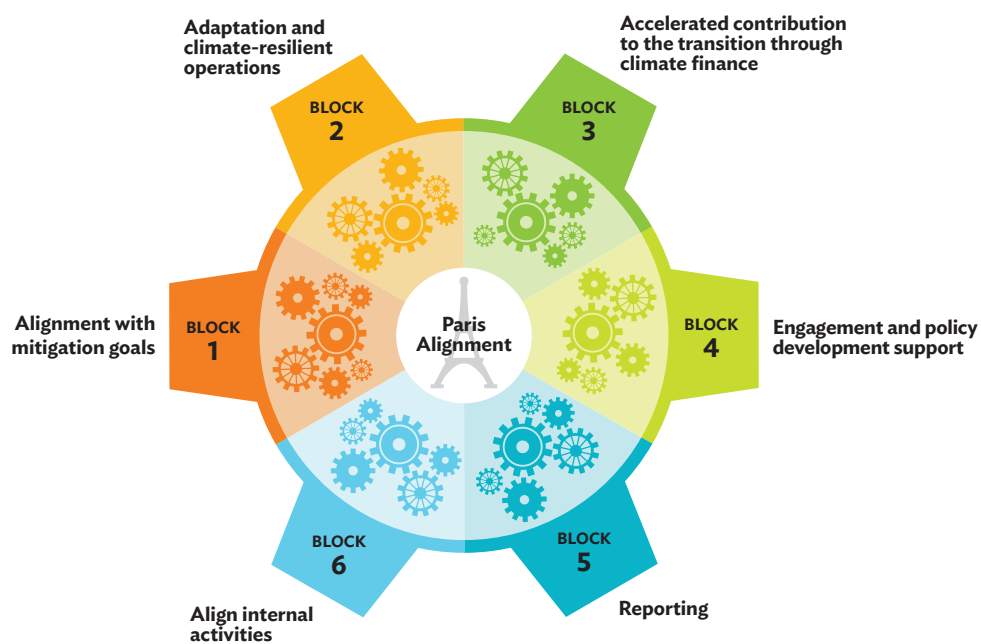
# Alignment with the Paris Agreement

56. As mentioned previously, IsDB, along with the other major MDBs, is working towards aligning financial flows with the objectives of the Paris Agreement. In order to realize this vision, IsDB is working with the other MDBs to develop a harmonized approach to the operationalization of the Paris Agreement’s Article 2.1.(c). This approach aims at aligning IsDB’s activities with the goals of the Paris Agreement (Figure 9).
57. IsDB is committed to working with its MCs to identify resilient and low-carbon development pathways, recognizing their national circumstances. As these pathways are developed by MCs, IsDB is to ensure that its operations are consistent with MCs’ SDG and climate commitments.
58. The concept of Paris Alignment is in line with the mainstreaming principles that the MDBs endorsed in 2015 and that stipulate the integration

of climate-related considerations across all the activities of financial institutions. The MDB Paris Alignment framework is structured around six building blocks (BBs) (Figure 9).

- ◆ **Building Block 1:** Activities that help MCs manage transition risks; activities being consistent with the different countries’ low-emission development pathways and with the overall Paris Agreement mitigation goals.
- ◆ **Building Block 2:** Adaptation activities that help MCs manage physical risks of climate change and ensuring that activities are compatible with climate-resilient development.
- ◆ **Building Block 3:** IsDB’s activities that can increase the flow of funds (own account and through trust funds) for climate actions, including by robust targeting and reporting on climate finance, strengthening the MDBs’ capacity to mobilize private finance for it, and technical assistance for clients.

**Figure 9.** Overview of the six building blocks of the MDB Paris Alignment framework



- ◆ **Building Block 4:** IsDB’s efforts to focus on engagement and policy support for MCs’ low-carbon transition, including its efforts to develop climate-relevant MCPSs, MCs’ investments, and IsDB’s overall knowledge, capacity-building and technical support for MCs.
  - ◆ **Building Block 5:** IsDB’s ongoing efforts to report and disclose information about its efforts to support Paris Alignment activities.
  - ◆ **Building Block 6:** IsDB’s ongoing efforts to align its own operations, internal activities and processes (e.g. corporate footprint, internal finances) to the Paris Agreement objectives.
59. Each of these building blocks aligns with the Pillars of IsDB’s overall Climate Action Plan, as shown in Table 1.
60. IsDB recognizes that the MDBs’ Paris Alignment is a **dynamic process**. Indeed, activities that are considered ‘aligned’ with the Paris Agreement today, as part of the transition towards a low-carbon development pathway, may well become ‘misaligned’ in a few years and thus IsDB will assess its performance on an ongoing basis in the context of overall warming levels, required ambition to support a low-carbon transition and IsDB MC development needs.
61. This includes (i) a commitment to ensure all its financing is consistent with low-carbon and resilient development, (ii) specific means to support the establishment of long-term low-carbon and resilient pathways, and (iii) corresponding practical operationalization modalities.
62. Common frameworks are being developed by the MDBs, including IsDB, to assess Paris Alignment under these different building blocks (especially BB1 on mitigation and BB2 on adaptation). These frameworks will be further developed and piloted in 2020 and 2021 for application on the overall IsDB portfolio and subsequent external reporting in the following years.

**Table 1.** Alignment of the four pillars of the Action Plan with the six building blocks of the MDB Paris Alignment framework

Building Block	Pillar 1: Mainstreaming climate action in IsDB operations	Pillar 2: Promoting climate change resilience	Pillar 3: Green growth and supporting the transition to a green economy	Pillar 4: Leveraging resources
BB1: Alignment with mitigation goals	√	√	√	√
BB2: Adaptation and climate-resilient options	√	√		√
BB3: Accelerate the transition through climate finance	√	√	√	√
BB4: Engagement and policy development support	√	√	√	√
BB5: Reporting	√			
BB6: Align internal activities	√			

# Annex 1: Approach to building IsDB's climate finance target

Two approaches were used to calculate different alternatives for an IsDB climate finance target. The first is IsDB internal bottom-up driven from IsDB's baseline financing (2013–2017) and projections of trends in IsDB countries of operation. The second is a country-led approach, through countries' NDCs and their commitments taking into account their historical borrowing from the Bank.

## A1.1. Bottom-up approach

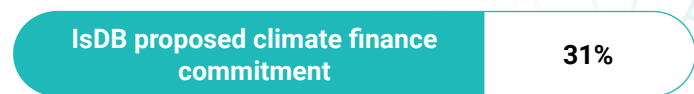
Regional hubs are at the front line of IsDB's engagement with MCs and are responsible for Member Country Partnership Strategies (MCPS) and programming. They have significant influence over the project pipeline and execution of projects, and are critical to the successful implementation of the Climate Change Policy and Climate Action Plan.

The bottom-up approach was developed internally by aggregating the individual regional hubs' commitments and raised climate change ambitions, based on their understanding of the existing pipeline, current activities and financing projections in their countries of operation. This approach uses IsDB's approval allocation to regional hubs and sectors in previous years (2013–2017) as baseline and approximated approval allocation scenarios from 2021 to 2025. The bottom-up target is derived as a function of aggregating each regional hub's climate finance ambition in different key sectors, based on the projected approval allocation scenarios.

The following formula shows the process of climate finance target calculation. For regions where making

projections for certain sectors was difficult, estimates were made taking multilateral development banks' (MDBs) activities and regional needs into account.

Using the bottom-up approach, it was estimated that approximately 31% of IsDB's overall annual lending (measured by commitments) by 2025 will need to be climate-related investments.



## A1.2. MC's NDC approach (country-led approach)

IsDB's MCs' own climate change commitments are illustrated in their nationally determined contributions (NDCs), including their emissions reduction targets.<sup>16</sup> Taking the NDC emission target of an MC as a function of that MC's total historical borrowing from IsDB and total historical IsDB financing from inception to 2017, IsDB was able to derive estimates of proportionate expected/needed incremental climate-related borrowing of that MC (using 2018 lending and climate finance as a baseline) to support its pledged emission reduction target by 2030. Overall IsDB estimates were derived from the sum of incremental financing needs of all 57 MCs as the weighted average need for MCs to achieve their NDC commitments.

Given that MCs' NDC commitments are grounded in targets for 2030 (and are expected to be reviewed to be more ambitious post-2020 and post-2025), the

$$\text{Climate Finance Target} = \sum_{i=0}^{57 \text{ MCs}} (\% \text{ of climate finance commitment (ambition) in one sector} \times \text{sector weighting} \times \text{regional hub weighting})$$

<sup>16</sup> An MC's NDC emission reduction target can serve as an indication for the incremental climate-related actions and activities pledged by 2030.

result can be used as a proxy for IsDB incremental climate finance commitment by 2030. The following formula shows the process of climate finance target calculation.

Based on this approach, Table A1.1 shows the range of a potential climate finance target for IsDB, based on conservative estimates of IsDB’s realistic

climate finance commitments derived from all MCs’ unconditional and conditional NDC targets. This approach was also compared with IsDB’s internal assessments of potential climate finance investments, and is consistent with the approach that other MDBs have undertaken to derive their climate finance commitments.

$$\text{Climate Finance Target} = \sum_{i=0}^{57 \text{ MCs}} \left( \% \text{ of emission reduction target in MC's NDC} \times \frac{\$ \text{ amount of MC's historical borrowing}}{\text{total } \$ \text{ amount of IsDB financing}} \right)$$

**Table A1.1.** IsDB proposed climate finance commitment based on MCs’ NDC targets

	Current baseline	Incremental financing need	Total	Notes
2030 Low case	19%	8%	27%	Low-case calculation uses the NDC unconditional targets, which is considered voluntary and implementable without outside support (only country resources)
2030 High case	19%	17%	36%	High-case calculation is based on NDC targets that are both unconditional and conditional on either external financial support or conditional on supportive climate-related policies pursued by other countries (or both)

## Annex 2: Climate change integration into sector strategies

Internal alignment between IsDB's objectives and sector strategies is crucial to ensuring that project selection and implementation supports IsDB's overall strategy. Since 2017, all IsDB sectors and cross-cutting divisions have been developing, revising or updating their policies, and each policy presented to the Board since 2018 has had climate change as a key dimension. Moreover, sector strategies to be developed would be expected to have specific sector-based objectives related to climate change. This annex discusses sector-based commitments by IsDB as reflected in Board-approved strategies.

### Transport

Outlined in the IsDB Transport Sector Policy of December 2018, transport CO<sub>2</sub> emissions from IsDB MCs are growing rapidly, driven by growth in transport demand. From 2010 to 2050, emissions are projected to increase almost three fold, with total emissions reaching about 2.2 Gt in 2050. As a result of climate change, countries face new challenges to adapt their transport infrastructure to be resilient in changing climate conditions. MCs encompass a wide range of climates, and the range of climate risks and vulnerabilities relevant for transport includes extreme high temperatures, rising sea levels, increases in flooding and storms, and melting of permafrost.

As a member of the Multilateral Development Bank Working Group on Sustainable Transport (WGST), IsDB is planning to step up its support for climate mitigation and adaptation in the transport sector. The Bank defined its target and action plan in the IsDB Transport Sector Policy. Priorities for mitigation in the transport sector include urban public transport, railways, inland waterway transport, multimodal logistics, intelligent transport systems, fuel efficiency and clean vehicle technologies. For climate adaptation, IsDB will introduce climate risk screening of all transport project proposals to ensure that climate adaptation needs are addressed and incorporate climate-

resilient design where significant risks are identified. In addition, technical assistance will be provided to help MCs prepare mass transit and low-carbon transport projects, sector-wide approaches to climate adaptation, and nationally determined contributions (NDCs) under the Paris Agreement.

### Energy

Aligning the IsDB's energy practice with the IsDB Climate Action Plan is crucial, as it will enable wide partnerships to develop a strong knowledge base, promoting regional cooperation, especially in the areas of renewables and energy efficiency, and facilitating increased private sector involvement to achieve energy prosperity. It will also enable MCs to realize their NDCs submitted to the United Nations Framework Convention on Climate Change under the Paris Climate Accord.

The Energy Sector Policy identified innovative financing for energy efficiency, renewable energy and climate change as one of four enablers to stimulate the pillars of the policy. The focus on energy efficiency, renewable energy and climate change will require a major increase in concessional or soft financing, even in middle-income countries. The Bank will identify opportunities for developing effective and innovative cooperation models with partner development institutions, through thematic programmes (e.g. for energy poverty, sustainability). This includes creating innovative financing and leveraging opportunities by setting climate financing architecture with external partners. This may include resource-mobilization opportunities and mechanisms such as crowdfunding and mapping of climate funds and donors.

### Health

The Bank's Health Policy received Board approval in late 2019. It is intended to guide all health

programmes and operations of IsDB, focusing on the need to attain universal health coverage within the context of delivery of primary healthcare. As its MCs have various levels of fragility, conflict and climate vulnerabilities, IsDB will target the most vulnerable and poor population groups to deliver health services from a 'rights perspective', which honours the fundamental principles of equity and social justice. IsDB will support schemes to finance the delivery of universal access to affordable and quality primary healthcare, including ensuring health security in the face of global health threats including climate change.

As health has been identified as a priority sector in 54% of NDCs featuring adaptation, the Bank will identify opportunities for addressing the priority actions identified in the Health Policy while at the same time ensuring that the supported health systems are climate-proofed and that capacities are built at the institutional level to tackle health-related climate vulnerabilities in MCs or identify climate opportunities. Relevant mechanisms, tools and funding channels already used or developed by the Bank that could harness adaptation and mitigation co-benefits in the health sector will be considered.

### Education

Education is an essential element of the global response to climate change. Recognized by United Nations Educational, Scientific and Cultural Organization (UNESCO), it helps people understand and address the impact of global warming, encourages changes in their attitudes and behaviour, and helps them adapt to climate change-related trends. Education and awareness-raising enable informed decision-making, play an essential role in increasing adaptation and mitigation capacities of communities, and empower women and men to adopt sustainable lifestyles. At the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in Paris (2015), Islamic leaders called on the world's 1.6 billion Muslims to play an active role in combatting climate change, and emphasized that Islamic environmentalism is embedded in the matrix of Islamic teachings.

The IsDB Education Policy (approved December 2018) recognizes that education should be a more

central and visible part of the international response to climate change. At the operational level, it is highly relevant to IsDB's endeavour to strengthen the capacity of its MCs to provide quality climate change education – encouraging innovative teaching approaches to integrate climate change education and raising awareness about climate change through media, networking and partnerships.

### Agriculture and rural development

Climate change and agriculture are deeply intertwined. Major changes in temperature, precipitation or wind patterns greatly affect agricultural producers, as the entire sector depends on specific climate conditions. The agricultural productivity in IsDB MCs, on average, is less than half of the world average, in part due to low investment in the sector, which is exacerbated by climate change in regions that are already particularly vulnerable. The IsDB Policy on Agriculture and Rural Development (approved December 2018) recognizes the linkage between the agriculture sector and its role in combating climate change, through both mitigation and adaptation. The sector policy proposals include, and it promotes, climate-smart agriculture (CSA), an agricultural practice that sustainably increases productivity, enhances resilience (adaptation), reduces or removes greenhouse gases (mitigation) where possible, mitigates land and soil degradation, and enhances achievement of national food security and development goals. IsDB will encourage CSA, and private sector-led value chain development that can scale it up. Special attention will be devoted to resilience-building in fragile high-risk and low-capacity countries.

Integrated natural resources management that caters for nature protection and biodiversity conservation was identified as an integral part of the sector policy. IsDB has determined to support the widest possible international cooperation and purposeful partnership aimed at increasing adaptation capacity of agricultural systems and reduction of greenhouse gas emissions through nature-based solutions and new appropriate technologies. Many countries, especially in Sub-Saharan Africa, have limited human and weak institutional capacities to innovate and build resilient agricultural systems. This needs to be addressed in a concerted manner.

## Women's empowerment

The regions covered by the Bank differ greatly in their socio-economic profiles, political systems and levels of human development. While economic growth is necessary for poverty reduction, reducing inequalities is key for growth to have a real impact on poverty reduction.<sup>17</sup> One of the most potent manifestations of inequality is gender inequality. Empirical evidence shows that gender-based inequalities limit both economic growth and poverty reduction. At the same time, countries that improve the status of women tend to have lower poverty incidence and stronger economic growth. A quarter of MCs subsist below the poverty line, and many of them also suffer from gender inequalities of various degrees. There is strong pragmatic and economic evidence that shows that women's empowerment is key to achieving sustainable social and economic development.<sup>18</sup> Women in MCs also rely heavily on environment-related livelihoods, leaving them especially vulnerable to the impacts of climate change, making them key resources to addressing climate change mitigation and adaptation in their communities.

At COP21, Parties recognized the importance of involving women and men equally in

UNFCCC processes and in the development and implementation of national climate policies that are gender-responsive, by establishing a dedicated agenda item under the Convention addressing issues of gender and climate change, and by including overarching text in the Paris Agreement. The preamble calls for gender equality and women's empowerment, and the sections of the agreement on adaptation and capacity-building efforts specifically call on countries to adopt gender-responsive approaches. This includes "the recognition that women commonly face higher risks and greater burdens from the impacts of climate change in situations of poverty, and the majority of the world's poor are women. Women's unequal participation in decision-making processes and labour markets compound inequalities and often prevent women from fully contributing to climate-related planning, policy-making and implementation".<sup>19</sup>

The IsDB Women's Empowerment Policy recognizes that climate change is a macro issue that disproportionately impacts women and youth, and has incorporated climate change considerations into its approach to improving women's empowerment in its efforts with MCs.

17 UNDP (1995, 2010, 2011) Human Development Reports. <http://hdr.undp.org/en/global-reports>; World Bank (2001, 2011) World Development Reports. <https://www.worldbank.org/en/publication/wdr/wdr-archive>.

18 UNSG High Level Panel Report on Women's Economic Empowerment (2017) Leave No One Behind: Taking action for transformational change on women's economic empowerment. [www2.unwomen.org/-/media/hlp%20wee/attachments/reports-toolkits/hlp-wee-report-2017-03-taking-action-en.pdf?la=en&vs=5226](http://www2.unwomen.org/-/media/hlp%20wee/attachments/reports-toolkits/hlp-wee-report-2017-03-taking-action-en.pdf?la=en&vs=5226); World Bank (2011) World Development Report 2012: Gender equality and development. Washington, DC. <https://siteresources.worldbank.org/INTWDR2012/Resources/778105-1299699968583/7786210-131593622006/Complete-Report.pdf>

19 Information in this paragraph is sourced from the United Nations Climate Change site, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

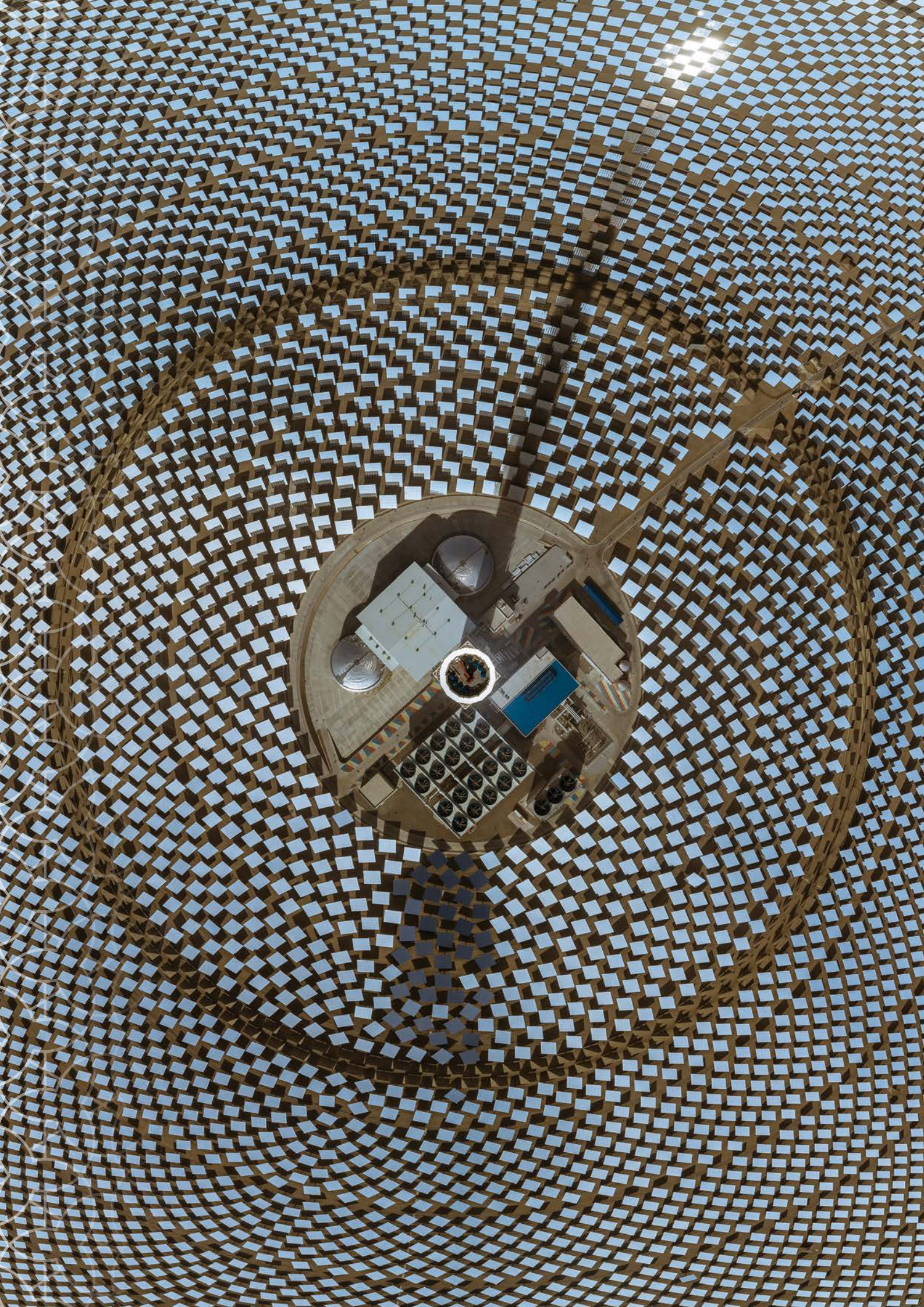




# Annex 3: Logical framework for IsDB climate action

## Logical framework for IsDB climate action





# Annex 4: IsDB climate change implementation framework

Climate change continues to pose significant threats to economic and social development at the global, regional, national and local levels. It has therefore become imperative to develop and implement coherent strategies to minimize the current and future impacts of climate change while at the same time meeting development objectives. IsDB seeks to support its Member Countries (MCs) in the implementation of climate actions that will promote sustainable and climate-resilient development as stipulated in the Sustainable Development Goals (SDGs), the Paris Agreement and the national development priorities of MCs. The Bank is actively working to explore the opportunities provided by climate change to enhance resilience and climate-proof investments in its MCs.

## IsDB Climate Change Policy and Implementation Framework

IsDB developed a Climate Change Policy (CCP) that recognizes that IsDB's MCs are diverse and face different types of challenges, and that a country-driven approach will be imperative to ensure the objectives outlined in the policy are realized. The CCP includes four specific Policy Pillars (see Figure 4):

- ◆ Mainstreaming climate action into the Bank's operations
- ◆ Promoting climate change resilience in MCs
- ◆ Supporting the transition to green economy in MCs
- ◆ Leveraging resources to implement climate-related activities.

This CCP Implementation Framework is designed to operationalize the CCP across the Bank's operations, with a particular focus on integrating climate change into its investments, building awareness and capacity to understand and address climate risks and opportunities among key internal and external stakeholders and functions, each of whom can help to 'mainstream' climate considerations into development activities.

## Implementation roles and responsibilities of IsDB functions

The CCP Implementation Framework highlights and defines the functions of the different complexes, departments and divisions within the Bank, as well as their roles and responsibilities in the mainstreaming of climate considerations in IsDB activities.

The Climate Change Division (CCD) – the main focal point and implementing unit within the institution for all programmes, projects and initiatives that have a climate change component – will work in partnership with other global practices, regional hubs and MCs to develop solutions to advance climate considerations throughout the institution and the investments undertaken by MCs. To achieve the objectives of the four pillars in the CCP, the CCD will work directly with the President's and Country Programs complexes to enable IsDB to play a more active role in supporting its MCs to transition to a more resilient, green and sustainable development. Some of the key activities to be implemented include: (i) mainstreaming climate change into the IsDB project cycle; (ii) capacity-building at the institutional and MC levels, including the strengthening of human capacity within the CCD; (iii) country dialogue with MCs to promote climate resilience and support the transition to green economy; and (iv) production and dissemination of knowledge products and best practices.

## Mainstreaming climate change in IsDB operations

Effective mainstreaming of climate action requires integrating climate considerations across the four stages of the project cycle: (i) planning and country dialogue, (ii) project appraisal and investment, (iii) portfolio management and (iv) evaluation.

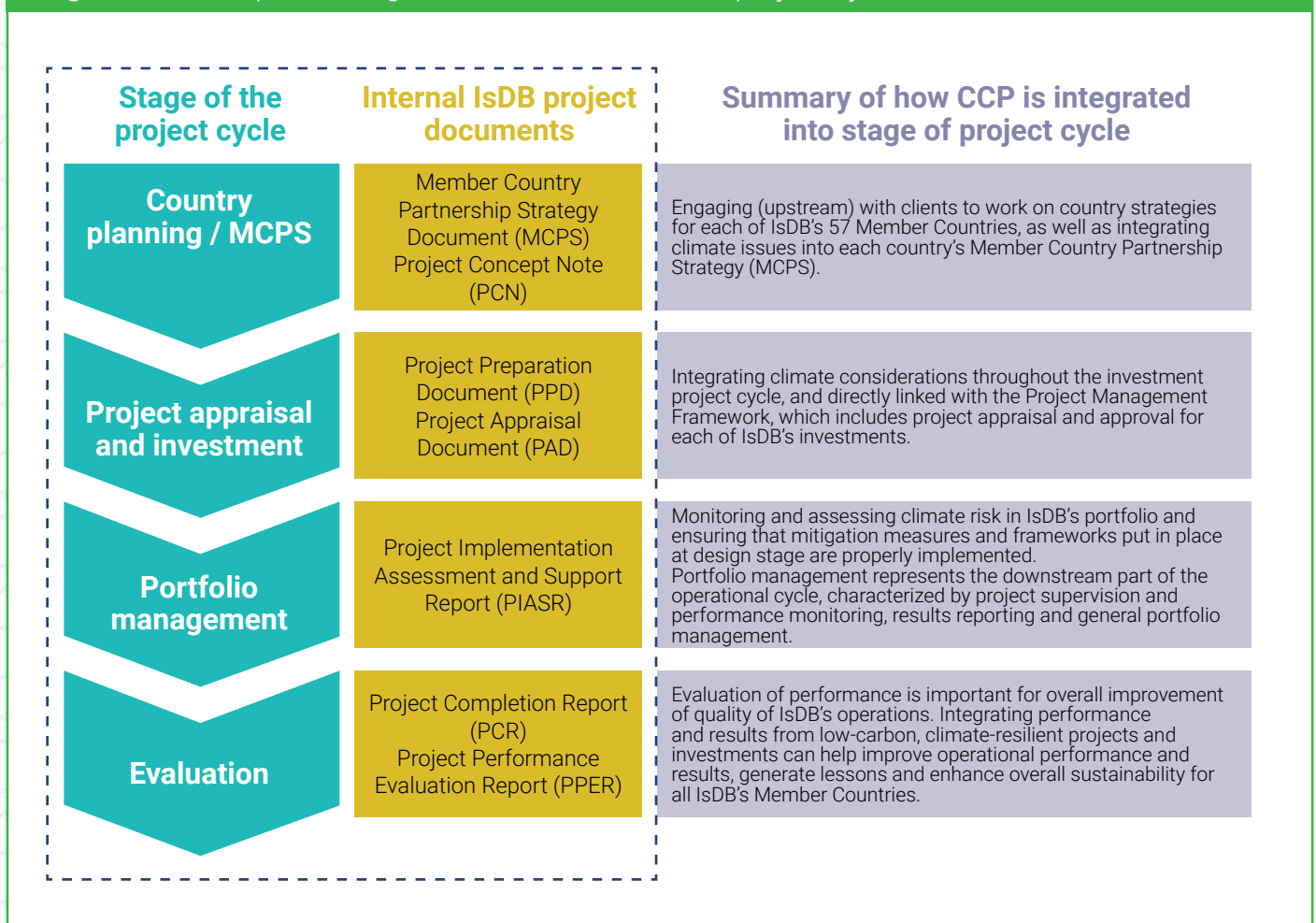
At the country planning stage, the CCD will work with relevant departments and units in the President's

and Country Programs complexes to highlight and integrate climate considerations into each country's Member Country Partnership Strategy (MCPS). At the project appraisal and approval stage, the CCD, in collaboration with other relevant functions within the Bank and external counterparts, will ensure that all projects are screened for climate risks and evaluated to identify appropriate adaptation measures to enhance climate resilience, while at the same time exploring mitigation opportunities. At the portfolio management stage, the CCD and other relevant functions will ensure that risk mitigation measures and frameworks identified at the design stage are properly implemented. At the evaluation stage, the IsDB will assess the quality of interventions and ensure constant monitoring of the project's overall performance and sustainability. The operational mainstreaming process is summarized in Figure A4.1.

## Capacity-building and country dialogues

The capacity-building component of the framework covers training for key functions across the Bank and for MCs on how to effectively mainstream climate considerations into development projects and programmes. At the institutional level, key functions, including regional hubs and global practices, will receive appropriate training on how climate change might impact IsDB MCs in the short, medium and long term, how to consider climate risks at the geographic and sector levels, and how to (i) seek opportunities for MC clients/beneficiaries to promote low-carbon, climate-resilient investment and (ii) integrate climate risk considerations into country strategies and project design. Training programmes will be designed to create awareness and deepen knowledge on climate risks and opportunities, and integrate climate change into MCPS training.

**Figure A4.1.** Implementing the IsDB CCP across the project cycle



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At the MC level, IsDB will develop and provide training for various local stakeholders on the relevance of climate action and considering climate risks and opportunities in national planning and project design. Workshops, country dialogues and capacity-building events will be organized in liaison with MC counterparts and development partners operating in these MCs, specifically focusing on inter-sectoral linkages between climate change and other sectors, enhancing coordination among stakeholders, fostering exchange on best practices in climate change mainstreaming, adoption and implementation of innovative policies and climate finance initiatives to promote green economy.

### **Leveraging financial resources**

To leverage adequate financial resources to implement climate-related activities, the CCD will work with various functions in the Finance and Partnership Development complexes on various key activities, including incorporating climate criteria in investments selection and decision-making process, raising money for increased climate action through the issuance of green/climate *sukuk*, and the development of financial products and structures

that meet beneficiaries' needs and catalyse climate investment.

To leverage non-capital market resources – including grants for technical assistance and capacity-building programmes, as well as non-grant resources for co-financing and concessional financing – the CCD will work with the Partnerships Development Complex to develop comprehensive strategies for engaging with and accessing international climate finance sources to support low-carbon and climate-resilient investments in MCs.

### **Implementation timeline**

Implementation of the CCP has already started, and it is expected that within the next five years, climate change will be fully mainstreamed into the Bank's operations. The CCD will continue to develop various tools and resources that will help IsDB to identify, assess and manage climate risks and help facilitate knowledge-sharing on emerging practices. As the roles of different functions within the Bank continue to evolve, this implementation framework will be periodically updated as needed to reflect their role in climate change action and policy implementation.

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