MOBILISING CAPITAL, MITIGATING RISK: THE ROLE OF IFIS IN ADVANCING CLIMATE FINANCE IN ASIA-PACIFIC

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The Report is a joint effort of the ADA members and partners across Asia pacific

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Foreward

The Asia-Pacific region stands at a crossroads. As the engine of global economic growth, it also faces the brunt of climate change, with rising sea levels, extreme weather events, and environmental degradation threatening its future. Multilateral Development Banks (MDBs) play a crucial role in steering the region towards a sustainable future. However, achieving this requires a delicate balancing act – ensuring adequate climate finance reaches developing countries while promoting clean energy and climate resilience.

The challenge is significant. Despite boasting over 70% of global growth, Asia-Pacific economies remain heavily reliant on fossil fuels like coal. The region's carbon footprint continues to rise, exceeding 58% of global emissions in 2021. This necessitates a substantial shift towards renewable energy sources and climate-resilient infrastructure. Here's where MDBs can make a significant impact by funneling resources into clean energy projects, supporting adaptation measures, and assisting countries in meeting their climate pledges.

However, simply throwing money at the problem isn't enough. MDBs need to ensure their climate finance leverages limited resources effectively. This involves prioritizing projects that maximize environmental and social benefits. Accountability and transparency are also critical. Local communities must be included in decision-making processes to ensure projects address their specific needs and minimize potential disruptions. The following sections of this report will delve deeper into the strategies MDBs can employ to optimize climate finance in the Asia-Pacific region, fostering a sustainable future for all. The reports emphasize the importance of enhancing transparency and accountability in climate financing initiatives to uphold environmental and social standards, and to ensure that funds are directed towards sustainable and climate-resilient projects in the Asia-Pacific region.

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EXECUTIVE SUMMARY

The report entitled "Mobilising Capital, Mitigating Risk: The Role of IFIs in Advancing Climate Finance in Asia Pacific" emphasizes the urgency of addressing climate change and the critical role of International Financial Institutions (IFIs) in providing climate finance to developing countries. Climate finance is highlighted as essential for supporting the transition to a low-carbon economy, building resilience, and addressing the impacts of climate change. The importance of mobilizing $100 billion annually from developed countries for climate finance in developing countries is emphasized, with the United Nations Framework Convention on Climate Change playing a supervisory role in these transfers. The report underscores the significant role played by IFIs such as the World Bank, Asian Development Bank, and others in providing funding and technical assistance for climate change mitigation and adaptation projects in developing countries. It also acknowledges the need for greater accountability, transparency, and consideration of local needs and priorities in climate finance practices.

The joint report by Multilateral Development Banks highlights that MDB climate finance reached a record high in 2022, with close to USD 61 billion provided for low and middle-income economies, surpassing the 2025 climate finance targets. Additionally, the document critiques the controversial loans provided by IFIs and highlights specific instances such as the Typhoon Haiyan response in the Philippines to underscore the need for greater transparency, accountability, and consideration of social and environmental impacts in IFIs' practices.

Moreover, the report provides recommendations for IFIs to improve their climate finance practices, including increasing transparency, prioritizing local needs, supporting bottom-up approaches, ensuring environmental and social safeguards, promoting gender equality, fostering partnerships, leveraging private sector investment, and promoting green bonds. It also emphasizes the need for greater support for climate resilience, ecosystem-based approaches, and addressing debt sustainability issues. Furthermore, recommendations for better IFIs-led initiatives to address loss and damage caused by climate change in the Asia Pacific region are outlined, focusing on increasing funding, enhancing collaboration, capacity building, community-based approaches, and ensuring accountability, among others.

Lastly, the report emphasizes the need for a comprehensive approach to addressing long-term challenges, including those related to governance, financing, and capacity building in addressing loss and damage caused by climate change, while promoting knowledge-sharing and learning among countries and communities.

Overall, the report underscores the critical role of IFIs in advancing climate finance in Asia, while also highlighting the need for greater accountability, transparency, and consideration of local needs and priorities in climate finance practices. It provides specific recommendations for IFIs to improve their climate finance practices and address loss and damage caused by climate change in the Asia Pacific region.

Some questions that this report addresses:

• What are the key areas that climate finance must be directed towards, according to the document?

• How do International Financial Institutions (IFIs) play a significant role in climate finance?

• What are the criticisms and controversies surrounding the climate finance practices of International Financial Institutions (IFIs) in the Asia-Pacific region?

• How can International Financial Institutions (IFIs) better address loss and damage (L&D) caused by climate change in the Asia Pacific region?

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INTRODUCTION

It's become unbearably clear that climate change is here and it's happening right now. Just a quick scroll through the news feed and we'll likely see reports of extreme weather events happening all around the world — from drought in the Horn of Africa, to wildfires in Chile, to heat waves across Asia, to flooding in eastern Africa. And that's just from the first few months of this year.According to a study from Indian Institute of Tropical Meteorology[1] There is an increase of 52 per cent in the number of cyclones in the Arabian Sea and a 150 per cent increase in Very severe cyclones. This increase has been linked to rising ocean temperatures and increased availability of moisture under global warming.

Climate change is a global challenge that requires urgent and ambitious action including urgent and sustainable financing from all countries to support climate change mitigation and adaptation efforts, critical to the success of the Paris Agreement and the achievement of the Sustainable Development Goals (SDGs). However, it's an inequality that became abundantly clear during the COVID-19 pandemic, with some countries able to rapidly access the financing and tools needed to tackle it and quickly bounce back, while others were left behind and continue to struggle with the pandemic's impacts, which is also the case now with climate change. It's clear that wealthy countries aren't immune to the impacts of climate-related disasters. But what sets wealthy countries apart from low-income countries, is that wealthy countries have the resources to respond and rebuild while low-income countries don't. Rich countries are able to borrow at interest rates of between 1% and 4%, while it's around 14% for poorer countries[2]. International Financial Institutions (IFIs), such as the World Bank, the International Monetary Fund, and regional development banks, play a crucial role in providing climate finance to developing countries. As the debt mounts up, it leaves less money available for responding to climate disasters, building up resilience to future disasters, and for spending on other critical issues like education and health care, which becomes a vicious cycle for the debt ridden countries to further repay the debt. This report discusses the importance of climate finance and the role of IFIs in facilitating it.

Importance of Climate Finance:

Climate finance is crucial for supporting the transition to a low-carbon economy and building resilience in the face of climate change impacts[3]. It refers to local, national, or transnational financing drawn from public, private, and alternative sources that seek to support mitigation and adaptation actions addressing climate change[4]. The importance of climate finance lies in its ability to fund large-scale investments required to significantly reduce emissions and help communities and economies adapt to the inevitable changes brought about by climate change[5]. The financial needs to deliver on climate goals are substantial, with estimates indicating that emerging markets and developing economies other than China will need to invest around $1 trillion per year by 2025 and around $2.4 trillion per year from 2030[6]. To meet these needs, climate finance must be directed towards five key areas: transforming the energy system, building adaptation and resilience, coping with loss and damage, restoring and protecting natural capital, and methane abatement. While climate finance has been a central element of global climate change negotiations since 1992, the target of mobilizing $100 billion a year from developed countries for developing countries remains a key goal[7]. Achieving this goal is essential for supporting developing countries in their efforts to mitigate and adapt to climate change, thereby contributing to the global goal of limiting global warming to well below 2°C above pre-industrial levels

The United Nations Framework Convention on Climate Change (UNFCCC) supervises transfers from developed to developing countries, recognizing the global nature of the problem and the higher costs for developing countries, which are often the most vulnerable to climate change[8]. Examples of climate finance include the Green Climate Fund (GCF), the Special Climate Change Fund (SCCF), the Least Developed Countries Fund (LDCF), and the UN-REDD Programme. These funds are administered by multilateral institutions, including development banks and financial institutions, and aim to support climate change mitigation and adaptation actions in developing countries. Nepal, for example, has utilized international climate finance to enhance disaster preparedness.

They have scaled up climate-smart agriculture practices to improve resilience against climate impacts. Additionally, Nepal has pioneered ecosystem-based solutions through community forest restoration.The country has set ambitious goals to create carbon-neutral tourist destinations by 2030[9]

The CIF, in partnership with the World Bank Group and other multilateral investment banks, has mobilized $60 billion in climate finance. These funds have been used to advance clean technology, promote energy access, support sustainable forestry, and build climate resilience in 72 countries

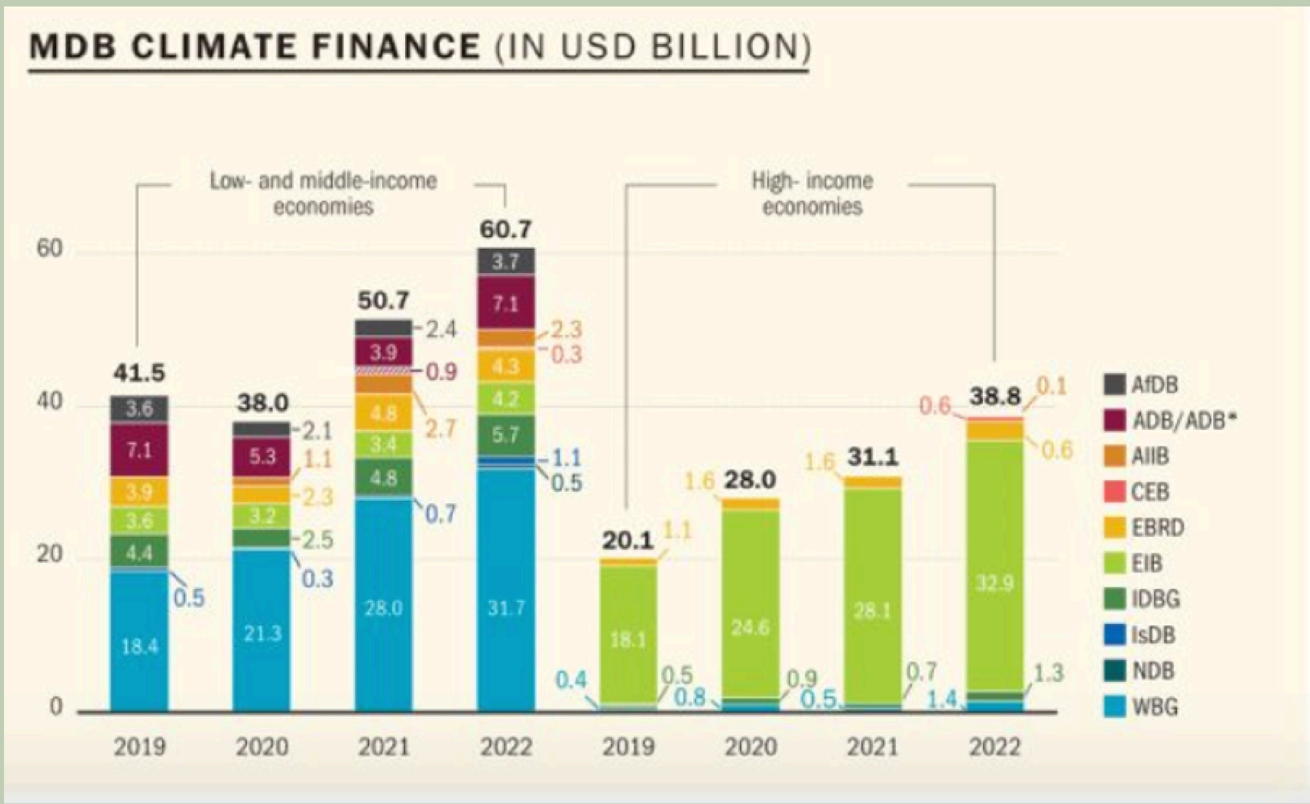
Climate finance is critical for supporting the transition towards low-carbon, climate-resilient development pathways and enabling countries to adapt to the impacts of climate change. Through funding projects and initiatives that promote renewable energy, build resilience, conserve forests, promote green infrastructure, and support climate-resilient agriculture, climate finance can contribute to a more sustainable and equitable future for all.

Role of International Financial Institutions:

IFIs are uniquely positioned to support the mobilisation and allocation of climate finance due to their extensive expertise in financial management and development projects. IFIs provide climate finance through various mechanisms, including grants, concessional loans, and guarantees. They also support policy reforms and institutional capacity building to enhance the effectiveness of climate finance in recipient countries. IFIs are also involved in designing and implementing innovative financial instruments, such as green bonds and climate risk insurance, to address the unique needs of climate finance.

International Financial Institutions (IFIs) play a significant role in climate finance, which refers to the financing of climate change mitigation and adaptation projects. IFIs are multilateral development banks and financial institutions, such as the World Bank, Asian Development Bank, and European Investment Bank, that provide funding and technical assistance for development projects in developing countries. IFIs have the capacity to mobilise finance, providing technical assistance, supporting capacity building efforts, promoting policies and regulations, and collaborating and coordinating with other actors in the climate finance ecosystem. By doing so, IFIs can help developing countries address the challenges posed by climate change and achieve sustainable and equitable development.

Figure:1



Source:https://www.linkedin.com/posts/new-development-bank_emdcs-ndbimpact-activity-7119627220993667074-EqKp/

A joint report by Multilateral Development Banks finds that MDB climate finance reached a new record high in 2022. MDBs provided close to USD 61 billion for low and middle-income economies in 2022. The amount of mobilised global private finance stands at $69 billion up from $41 billion in 2021.With the record 2022 climate finance volumes, MDBs are surpassing (for the second year in a row) the 2025 climate finance targets they set themselves at the UN Secretary General’s Climate Action Summit in 2019. This included delivering an expected collective total of $50 billion climate finance for low-income and middle-income economies, at least $65 billion of climate finance globally, with an expected doubling in adaptation finance to $18 billion; and private mobilisation of $40 billion[10].

FIGURE:2

CLIMATE FINANCE COMMITMENTS BY MDBs

African Development Bank
For low- and middle-income economies **$3 651 million**
For high-income economies
N/A

Asian Development Bank
For low- and middle-income economies **$7 107 million**
For high-income economies
$3 million

Asian Infrastructure Investment Bank
For low- and middle-income economies **$2 311 million**
For high-income economies
$80 million

Council of Europe Development Bank
For low- and middle-income economies **$295 million**
For high-income economies
$618 million

European Bank for Reconstruction and Development
For low- and middle-income economies **$4 289 million**
For high-income economies
$2 469 million

European Investment Bank
For low- and middle-income economies **$4 165 million**
For high-income economies
$32 913 million

Inter-American Development Bank Group
For low- and middle-income economies **$5 678 million**
For high-income economies
$1 288 million

Islamic Development Bank
For low- and middle-income economies **$1 050 million**
For high-income economies
N/A

New Development Bank
For low- and middle-income economies **$466 million**
For high-income economies
N/A

World Bank Group
For low- and middle-income economies **$31 666 million**
For high-income economies
$1 419 million

Source: https://www.ndb.int/news/multilateral-development-banks-provide-record-climate-finance-of-close-to-usd-61-billion-for-low-and-middle-income-economies-in-2022/

International Financial Institutions (IFIs) play a crucial role in climate finance. They provide funding and technical assistance for climate change mitigation and adaptation projects in developing countries. Here are some examples of the role of IFIs in climate finance, which is also based on ADA's mapping on five IIFIs, namely, World Bank, Asian Development Bank, Asian Infrastructure Investment Bank , New Development Bank and International Monetary Fund.

The World Bank:

The World Bank has committed to providing climate finance in Asia, with a focus on supporting countries in their efforts to reduce carbon emissions and build adaptive capacity. Between 2013 and 2020, $113 billion in climate finance was committed to South and Southeast Asia, with 47% provided through bilateral finance and 53% from multilateral sources[11]. Of this, the World Bank contributed $30 billion in climate finance attributable to developed country sources, with $15.1 billion from the International Bank for Reconstruction and Development (IBRD) and $15.0 billion from the International Development Association (IDA) [12]. The World Bank's commitment to climate finance in Asia is reflected in its efforts to support mitigation and adaptation objectives. Over the period 2013-2020, two-thirds of climate finance in Asia was directed to mitigation objectives, while one-third was allocated for adaptation[13]. The bank has also recognized the importance of addressing the adaptation funding gap, as the cost of recovery from climate-related losses and damages will continue to mount if not adequately addressed

In addition to its financial commitments, the World Bank is working to mobilize private sector investments in climate-smart sectors. The International Finance Corporation (IFC), a member of the World Bank Group, is committed to growing its climate-related investments to an annual average of 35% of its own-account long-term commitment volume between 2021 and 2025[14]. IFC is also working to align 85% of its new investment projects with the objectives of the Paris Agreement starting July 1, 2023, and 100% of these investments starting July 1, 2025. The World Bank's commitment to climate finance in Asia is also evident in its support for sustainable development initiatives in the region. The bank is working to promote sustainable development practices, protect natural areas, and find innovative financing mechanisms to support the transition to a low-carbon economy[15].

By working closely with countries in the region, the World Bank aims to foster sustainable development, mitigate climate risks, and create opportunities for green growth that benefit both the environment and local communities.

The World Bank has committed to providing $200 billion in climate finance for the period of 2021-2025. This funding will support climate change mitigation and adaptation projects in developing countries, including renewable energy projects, sustainable transportation systems, and climate-resilient infrastructure.

Role of the World Bank as Interim Trustee of GCF :

The World Bank plays a role in the Green Climate Fund (GCF) as the interim trustee, managing the fund's financial assets for an initial three years. The World Bank is responsible for managing contributions and investments, providing services such as commitment accounting, cash transfers, and financial reporting. However, it is not responsible for allocating funds or preparing, appraising, supervising, or reporting on GCF-financed activities. The World Bank has expressed interest in playing a larger role than just managing financial assets in the future. The GCF secretariat was asked to prepare six papers on the key issues relating to the Fund's business model framework, and some of these papers were written with the support of external consultants, among them former and even current World Bank staff. The World Bank plans to seek accreditation to become an implementing entity of the GCF[16].

The International Finance Corporation:

The International Finance Corporation (IFC) is the private sector arm of the World Bank Group, dedicated to ending extreme poverty and boosting prosperity on a livable planet[17]. IFC advances economic development and reduces poverty by investing in projects and private sector firms in developing countries, with a focus on creating markets and increasing private sector involvement in developing countries[18]. IFC provides various financial products, including loans, equity, trade finance, structured finance, syndication, advisory services, and asset management, to promote sustainable and inclusive economic growth in emerging markets. IFC's investments aim to create positive impacts alongside financial returns, with a commitment to align all investments with

with the Paris Agreement starting in July 2025 and a target to devote 45% of annual financing to climate by 2025. IFC's use of proceeds guidelines reflects its development mandate and commitment to sustainability[19]. IFC is committed to growing its climate-related investments to an annual average of 35% of its own-account long-term working with financial institutions to finance projects that will support mitigation and adaptation.

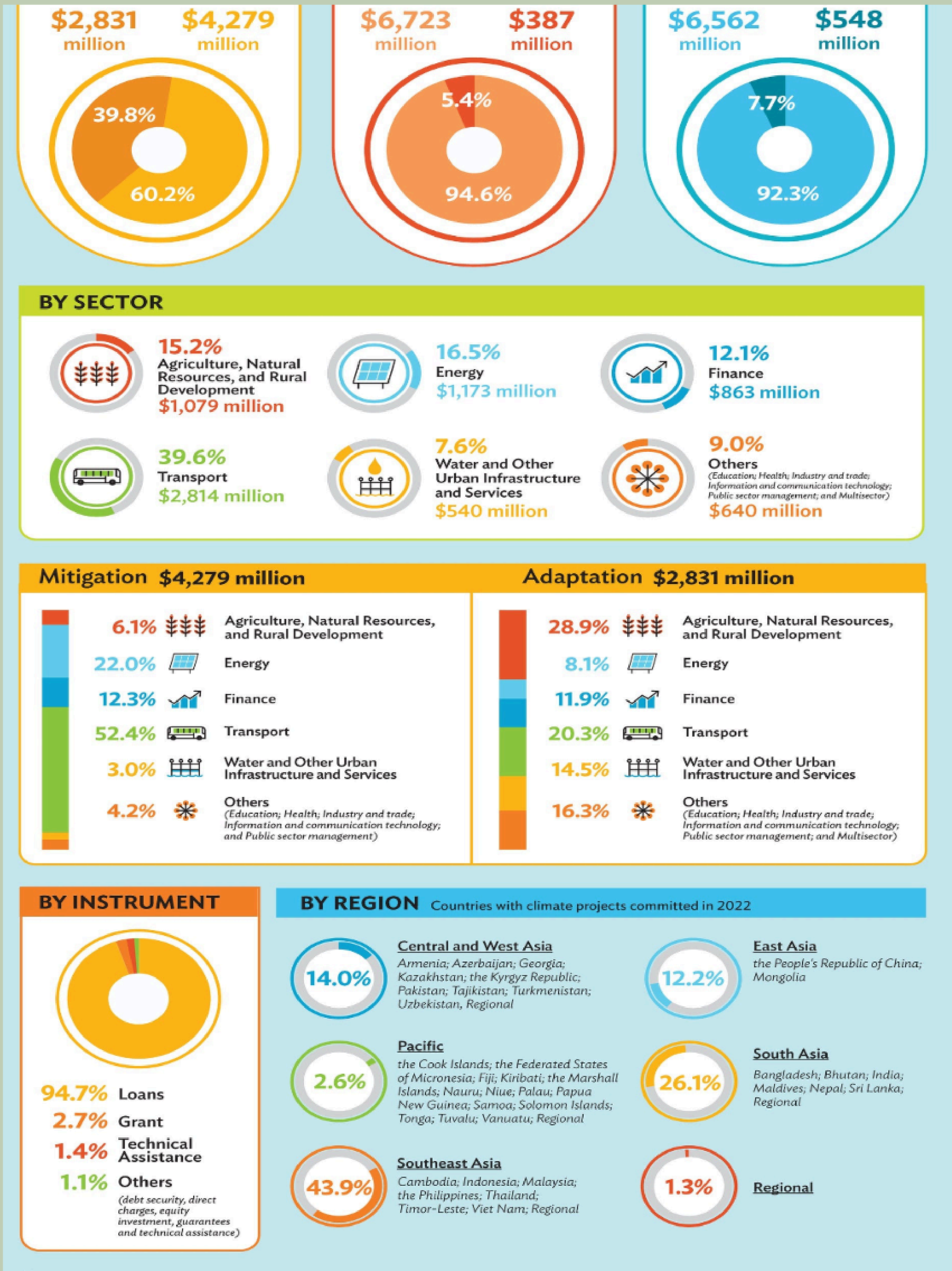
IFC also focuses on gender equality and reducing gaps between men and women in the private sector, including financial support for women entrepreneurs and women-led SMEs. In FY22, IFC committed a record $32.8B to private companies and financial institutions in developing countries, including $4.4B in climate financing and $9.7B in trade finance, with 75% invested in International Development Association (IDA) countries and conflict-affected situations[20].

The Asian Development Bank:

Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability is an operational priority in ADB's Strategy 2030[21]. ADB is committed to ensure that 75% of the number of its committed operations (on a 3-year rolling average) will be supporting climate change mitigation and/or adaptation by 2030 and climate finance from ADB’s own resources to reach $80 billion cumulatively from 2019 to 2030. In 2021, ADB announced it is elevating its cumulative climate finance ambition to $100 billion by 2030.

In 2022, ADB committed $7,110 million in climate finance. Of this total, $4,279 million (60.2%) is expected to contribute to climate change mitigation and $2,831 million (39.8%) to climate change adaptation, which is the highest adaptation finance committed since reporting began in 2011. ADB provided $6,723 million from its own resources and mobilized $387 million from external resources.

FIGURE:3



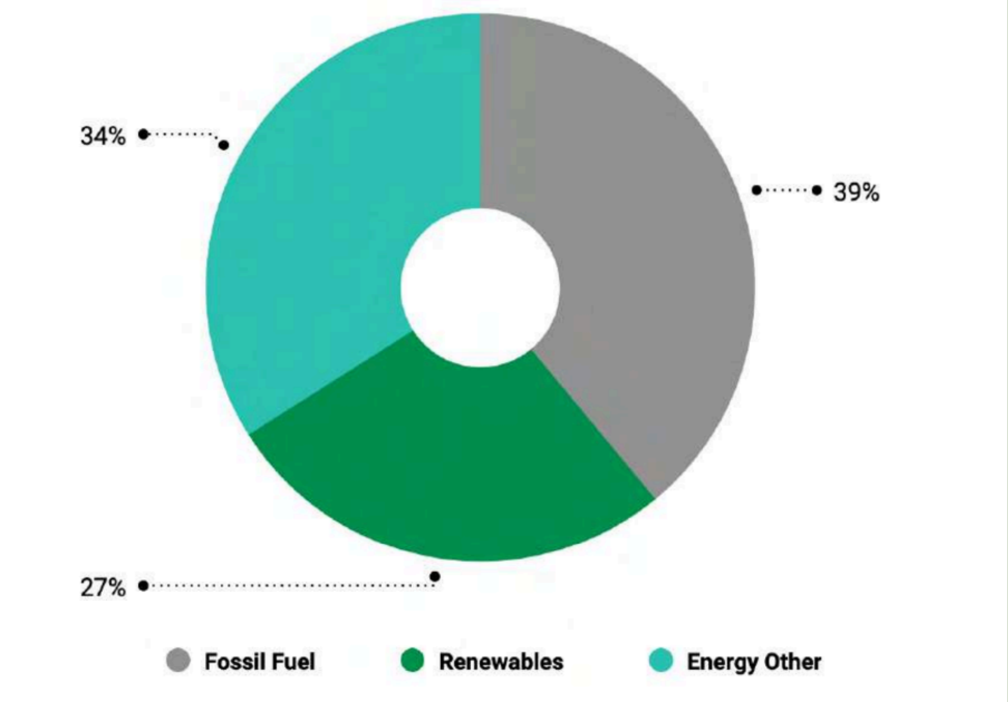
Notes:
1. The figures in this infographic are based on commitments.
2. ADB resources include loans from Regular and Concessional Ordinary Capital Resources, Asian Development Fund grants, and ADB Special Funds.

Asian Infrastructure Investment Bank (AIIB) :

According to a latest report by Recourse, BRICS Feminist Watch and CLEAN the AIIB is up to the challenge to address the climate crisis in policy and practice, including the urgent need to accelerate the shift from fossil fuels to sustainable renewable energy that puts people and the planet at the heart of development. Public finance is scarce and must be used efficiently and effectively to target priority sectors to enable the just energy transition. Apart from providing project finance, MDBs, like the AIIB, are triple A credit rated and bring confidence for other investors to contribute. MDBs' private sector operations mobilise capital from other lenders and investors - both private and public. MDBs also act as standard-setters – bringing social and environmental safeguards into development project implementation

Figure -4

The AIIB's Energy Sector investments as of end of January 2023



Source: Asian Infrastructure Investment Bank, https://www.aiib.org/en/projects/list/year/All/member/All/sector/Energy/financing_type/All/status/Approved, https://re-course.org/wp-content/uploads/2023/03/Beyond-Paris-How-AIIB-can-align-policies-practices-to-climate-challenge-March-2023.pdf

The AIIB is currently developing a methodology to align its investments with the Paris Agreement on climate change, with a deadline of July 2023. While the goal of the Paris Agreement - of keeping global warming to below 1.5°C - is essential, the content of the Agreement and the country pledges that contribute to it are insufficient as they

would result in at least 2.4°C warming. This is why this report calls for the AIIB to go ‘beyond Paris’.The report finds several obstacles for the AIIB to realise its stated climate ambitions, in both its policies and practice, including several missed opportunities to be truly transformational. As of the end of January 2023, the AIIB had invested almost $2.4 billion in gas projects, excluding indirect finance, representing almost 40 percent of its energy portfolio. The updated Energy Sector Strategy paves the way for further support for fossil gas, classifying it as a transition energy source. In December 2022, the AIIB’s President approved an investment of $110 million for the Unique Meghnaghat IPP, a 584 Megawatt (MW) greenfield gas power plant in Bangladesh. The AIIB labelled this huge new fossil fuel project ‘Paris aligned’
.
As the AIIB finalises its Paris alignment methodology, it is critical that it learns from these concerning developments. The AIIB’s methodology should be based on the premise that public finance must prioritise sustainable renewable energy, stop funding fossil fuels and end consideration of gas as a transition fuel. The time left to achieve this shift necessitates urgent action, and scarce public funds should no longer prop up dirty and outdated technologies. But the methodology must also be built on principles of climate justice and rights. Given the limited scale of public investment resources for sustainable development and climate finance, it is a matter of efficiency, effectiveness and equity that it needs to set the highest bar with respect to good governance; applying, safeguarding and advancing environmental and social standards; and actively promoting social inclusion and poverty reduction, gender-responsiveness and human rights. For climate finance and truly Paris-aligned investments should fulfil three fundamental criteria:

- It must not support fossil fuels;
- It must do no harm by preventing human rights abuses and negative social and environmental impacts;

- It should aim to do good by addressing inequalities and generating broader benefits for affected people and communities, creating accountability for sustained climate impacts and contributing to larger paradigm shifts in the financial system.

Finally, AIIB need to open up its Paris alignment methodology for public consultation. How the AIIB aligns its investments with Paris is a matter of public interest and should therefore be subject to public scrutiny and input. The EBRD has shown that it is possible - and preferable - to invite public comment on its methodology, and the AIIB should do the same in the short time it has left before the 1 July 2023 deadline.

The New Development Bank:

The New Development Bank (NDB) has made significant strides in climate finance, with its joint report with Multilateral Development Banks (MDBs) revealing that MDB climate finance reached a new record high in 2022[22] . This commitment to climate finance is crucial for supporting the transition to a low-carbon economy and building resilience in the face of climate change impacts. The NDB, along with other MDBs, has set ambitious climate finance targets to help low- and middle-income economies transition to a low-carbon economy. For instance, the NDB set a climate finance target of 35% of total financial commitment by 2025, while the Islamic Development Bank (IsDB) committed to a climate finance target of 35% of total financial commitment by 2025[23]. The African Development Bank (AfDB) provided 62% ($2.3 billion) of their total climate finance in 2022 for adaptation, increasing its overall finance for adaptation by 47% ($0.7 billion) from 2021. However, despite these efforts, MDBs need to review and increase the ambition of their climate finance targets. MDBs hit their collective goal of $50 billion in climate finance for low- and middle-income economies by 2025 four years ahead of schedule and surpassed it by over 20% in 2022[24]. Therefore, it is essential for MDBs to strategize together and set more ambitious targets to support the transition to a low-carbon economy and build resilience in the face of climate change impacts.

International Monetary Fund (IMF):

The International Monetary Fund (IMF) recognizes the critical importance of climate finance in the Asia-Pacific region as it transitions toward a sustainable future. The International Monetary Fund (IMF). The IMF emphasizes the importance of mobilizing private capital to address climate challenges, especially as public finances have been strained by the global pandemic. To bridge the financing gap, the IMF advocates for a coordinated approach involving various stakeholders, including governments, central banks, financial supervisors, and multilateral institutions. The IMF highlights the urgency of incorporating climate considerations into financial frameworks, asset purchases, and reporting requirements to foster the development of green markets and ensure transparent and efficient climate finance mechanisms[25]. Despite driving global growth, the region's heavy reliance on coal has resulted in significant greenhouse gas emissions. To meet climate mitigation and adaptation needs, emerging and developing Asia requires an annual investment of at least $1.1 trillion. However, the actual investment falls short by approximately $800 billion[26].

To unlock more climate finance in Asia, the IMF recommends comprehensive enhancements to data frameworks, taxonomies, and disclosures, alongside measures to phase out fossil fuel subsidies and expand carbon pricing. Strengthening macroeconomic and public investment management is crucial to reduce risk premiums, attract private capital, and drive economic growth. Central banks and financial supervisors are encouraged to promote global standards for transparency, conduct climate risk analyses, and integrate climate-related financial risks into prudential frameworks. Collaboration with multilateral standard setters is essential to enhance clarity, trust, and understanding in evaluating climate-related financial risks and opportunities

Critique of the IFIs for their controversial loans

International Financial Institutions (IFIs) have faced significant criticism for their controversial loans in the Asia-Pacific region. These loans often lack transparency, accountability, and proper assessment of social and environmental impacts. Critics argue that IFIs prioritize economic growth over sustainable development, leading to projects that harm local communities, ecosystems, and cultural heritage. Additionally, conditionalities attached to loans can exacerbate inequality and undermine democratic processes. The challenge lies in balancing economic progress with responsible lending practices and ensuring that IFIs uphold their commitment to social and environmental well-being. Critics also argue that these institutions prioritize the interests of wealthy nations over those of the borrowers, often leading to bail-outs for Western multinational corporations rather than improving the well-being of local communities

Typhoon Haiyan and the World Bank: In 2013, Typhoon Haiyan struck the Philippines, causing widespread damage and loss of life. In the aftermath of the disaster, the World Bank provided a $500 million loan to the Philippine government to support disaster recovery and reconstruction efforts. However, the loan was criticized for prioritizing infrastructure projects over the needs of affected communities, and for failing to adequately consult with local communities and indigenous peoples. The World Bank Group's response to Typhoon Haiyan has also been criticized for its lack of transparency and accountability, particularly in its investments in financial intermediaries (FIs). This lack of transparency makes it difficult for communities and civil society to bring cases to the Compliance Advisor Ombudsman (CAO), which undermines accountability and makes it harder to address negative impacts on affected communities[27]

Amplifying accountability gaps

Across the board, the current approach of most MDBs towards accountability and transparency issues is lacking. Rather than proposing to fix these issues, the MDB reform agenda is increasingly focused on bypassing safeguards, cutting "red tape," and enabling MDBs to disburse money faster without adequate consideration of the potential risks to human rights. One way this is happening is through project approval processes, where the G20 has urged MDBs to "consistently and more widely apply a risk-based approach" that delegates more decision-making power to management, away from government shareholders and Board members. These include for example, whether a project is the first in a sector or a country, and whether the project is above a certain monetary threshold (currently $300m for a sovereign project, $150m for a non-sovereign project, and $35m for an equity investment). However, such thresholds are not meaningful in terms of potential harms to local communities and the environment. For example, the AIIB approved a controversial gas power plant in Bangladesh, Unique Meghnaghat, with significant negative impacts on local communities, including undermining gender equality, as well as the environment. In addition, public disclosure standards at AIIB are extremely weak, with there being no indication of which projects are to be delegated to presidential approval[28]. This undermines the chain of accountability, as Board members are responsible for ensuring MDBs uphold their environmental and social standards, and the devolution of the approval process limits the ability of civil society and affected communities to raise concerns with their representatives.

Additionally, the shift towards "greater use of country systems" can be problematic, as the standards and regulations of many developing countries may not align with international best practices, potentially leading to weaker environmental and social safeguards implementation. This approach could result in projects being approved in countries with lax regulations, leading to adverse environmental and social impacts. Furthermore, relying solely on country systems may compromise the accountability and transparency of MDB-funded projects, as international standards often incorporate mechanisms for public participation, grievance redressal, and independent monitoring that may not be present in national regulatory frameworks.

Example of Mekong River Delta- Need for greater accountability and transparency in climate finance practices

The Annual Mekong Hydrology, Flood, and Drought Report 2019, published by the Mekong River Commission (MRC), sheds light on the condition of the Mekong Basin during that year. It highlights unprecedented flow conditions in the Mekong mainstream and its tributaries, as well as erratic climatic fluctuations ranging from extreme dry to extreme wet. The severe droughts in the Lower Mekong Basin caused substantial economic losses, impacting agriculture, the environment, and people's livelihoods[29]. Additionally, the collapse of a dam in Laos exacerbated the situation, leading to widespread flooding downstream in countries like Cambodia and Vietnam, resulting in loss of life and damage to critical infrastructure and ecosystems[30].

The dam was funded by international investors, including Thai banks, and was built by a Chinese construction company. The dam was part of a larger push towards hydropower development in the Mekong region, which has been driven by international financial institutions such as the Asian Development Bank.

Critics have argued that the push towards hydropower development in the Mekong region has been driven by the interests of foreign investors, rather than the needs and priorities of local communities. The development of dams in the Mekong region has led to the displacement of local communities, the loss of livelihoods, and the destruction of ecosystems, which has in turn contributed to the vulnerability of downstream communities to the impacts of climate change.

The Mekong River disaster highlights the need for greater accountability and transparency in climate finance practices. It also underscores the importance of ensuring that climate finance projects prioritize the needs and priorities of local communities and are consistent with environmental and social safeguards. The disaster serves as a reminder that climate finance must be used responsibly and must prioritize the well-being of people and ecosystems in the face of climate change.

Continued support for fossil fuels

Multilateral Development Banks (MDBs) have pledged to support the goals of the Paris Agreement on climate change. However, their actions don't always reflect these commitments. Despite promises to phase out fossil fuel funding, the World Bank alone has invested nearly $15 billion directly in fossil fuel projects since 2015[31]. Even recent years see MDBs allocating significant resources, with the World Bank averaging $1.2 billion annually for fossil fuels, with a focus on gas projects.

Current reform discussions seem inadequate. While some initiatives address early coal phase-out in low-income countries, they fail to address the broader issue of ongoing support for coal and gas projects through various means. Loopholes like excluding "captive coal" from restrictions and not considering financing through intermediaries allow coal projects to continue.

Additionally, MDBs haven't addressed existing clients who keep funding new coal projects. These gaps highlight the need for stricter policies and better enforcement before MDBs can claim true alignment with the Paris Agreement's goals. The continued support for gas projects under the guise of a "bridge fuel" further undermines their commitment to climate action. MDBs need to move away from fossil fuels altogether to become institutions that truly promote sustainable development.

IFIs ledinitiatives to address L&D caused by climate change in the Asia Pacific region

These initiatives provide financial and technical support to vulnerable countries and communities to help them adapt to the impacts of climate change and reduce the risk of L&D.

- **Climate Investment Funds (CIF)**: The CIF is a partnership of multilateral development banks, including the World Bank and the Asian Development Bank (ADB). The CIF has established two funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF), which provide financial resources to support climate change mitigation and adaptation projects, including those aimed at addressing L&D.
- **Green Climate Fund (GCF):** The GCF is an international fund established to provide financial resources to support climate change mitigation and adaptation projects in developing countries. The GCF aims to support projects that address the L&D caused by climate change, particularly in vulnerable countries and communities.
- **Asia-Pacific Economic Cooperation (APEC) Climate Center:** The APEC Climate Center is an international organization established to provide climate information and services to countries in the Asia Pacific region. The center provides technical assistance and capacity building support to countries to help them address the L&D caused by climate change.
- **Adaptation Fund:** The Adaptation Fund is an international fund established under the United Nations Framework Convention on Climate Change (UNFCCC) to support adaptation projects in developing countries. The fund provides financial resources to help vulnerable countries and communities address the L&D caused by climate change.

Asian Development Bank (ADB): The ADB has established several initiatives to support climate change adaptation and mitigation projects in the Asia Pacific region. The ADB's Climate Change and Disaster Risk Management (CCDRM) program provides technical assistance and financial resources to help countries in the region address the L&D caused by climate change.

1. **Pacific Climate Finance Facility (PCFF):** The PCFF is a fund established by the Asian Development Bank (ADB) and the Green Climate Fund (GCF) to provide financing for climate change adaptation and mitigation projects in the Pacific region. The PCFF aims to support projects that address the loss and damage caused by climate change, particularly in vulnerable island states.
2. **ASEAN Disaster Risk Financing and Insurance Program (ADRiFi)**: The ADRiFi is a program established by the Association of Southeast Asian Nations (ASEAN) to provide financial protection against the impacts of natural disasters, including those caused by climate change. The program aims to help countries in the region recover from the loss and damage caused by disasters, including climate-related disasters.
3. **Climate Risk and Early Warning Systems (CREWS) Pacific Project:** The CREWS Pacific Project is a fund established by the United Nations Development Programme (UNDP) to support the development of climate risk and early warning systems in the Pacific region. The project aims to reduce the loss and damage caused by climate change, including by providing early warning of extreme weather events and supporting disaster preparedness and response.
4. **Climate and Disaster Risk Reduction Financing Facility (CDRRFF):** The CDRRFF is a fund established by the World Bank to provide financing for disaster risk reduction and climate change adaptation projects in the Asia Pacific region. The facility aims to support projects that address the loss and damage caused by climate change, particularly in vulnerable communities.
5. **Climate Change Adaptation Fund (CCAF):** The CCAF is a fund established by the Ministry of Environment and Tourism of Mongolia to support climate change adaptation projects in Mongolia. The fund aims to support projects that address the loss and damage caused by climate change, particularly in rural and remote communities that are particularly vulnerable to the impacts of climate change.

Recommendations

- **Increase transparency and accountability:** IFIs should ensure that their climate finance practices are transparent, and that there is accountability for the use of funds. For example, the Green Climate Fund (GCF) publishes detailed information on its funding proposals and project implementation, and has established an independent complaints mechanism to ensure accountability.
- **Prioritize local needs and priorities:** IFIs should prioritize the needs and priorities of local communities when designing and implementing climate finance projects. For example, the Asian Development Bank (ADB) works with local communities in the Philippines to design and implement mangrove reforestation projects that not only reduce greenhouse gas emissions but also support the livelihoods of local fisherfolk.
- **Support bottom-up approaches:** IFIs should support bottom-up approaches to climate finance, which involve engaging with local communities and building capacity at the local level. For example, the World Bank's Community Development Carbon Fund supports community-led projects that reduce greenhouse gas emissions and promote sustainable development.
- **Ensure environmental and social safeguards:** IFIs should ensure that all climate finance projects are consistent with environmental and social safeguards, and that they do not harm ecosystems or communities. For example, the GCF has established environmental and social safeguards to ensure that its projects do not harm the environment or local communities.
- **Promote gender equality:** IFIs should promote gender equality in their climate finance projects, by ensuring that women are included in decision-making processes and that the impacts of climate change on women are addressed. For example, the ADB's Gender and Development Cooperation Fund supports projects that promote gender equality and address the impacts of climate change on women.
- **Foster partnerships:** IFIs should foster partnerships between governments, civil society organizations, and the private sector to ensure that climate finance projects are comprehensive and sustainable. For example, the ADB's Private Sector Operations Department works with private sector partners to support renewable energy and energy efficiency projects in the Asia Pacific region.

- **Leverage private sector investment:** IFIs should leverage private sector investment in climate finance projects to ensure that there is sufficient funding to address the scale of the climate challenge. For example, the International Finance Corporation (IFC), a member of the World Bank Group, supports private sector investment in renewable energy and energy efficiency projects in the Asia Pacific region.
- **Support low-carbon development pathways:** IFIs should support low-carbon development pathways, which prioritize renewable energy, energy efficiency, and sustainable transportation. For example, the ADB's Sustainable Transport Initiative supports sustainable transportation projects in the Asia Pacific region.
- **Build resilience:** IFIs should support climate resilience by investing in adaptation projects that help communities adapt to the impacts of climate change. For example, the GCF supports projects that promote climate resilience in vulnerable communities, such as a project in Bangladesh that improves water management and reduces the impacts of flooding.
- **Support ecosystem-based approaches:** IFIs should support ecosystem-based approaches to climate finance, which prioritize the protection and restoration of ecosystems as a means of reducing greenhouse gas emissions and building resilience. For example, the GCF supports ecosystem-based adaptation projects, such as a project in Fiji that restores coastal ecosystems and improves community resilience to climate change.
- **Promote green bonds:** IFIs should promote the use of green bonds as a means of financing climate change mitigation and adaptation projects. For example, the ADB issued its first green bond in 2015 to fund renewable energy and energy efficiency projects in the Asia Pacific region.
- **Increase public awareness:** IFIs should increase public awareness about the impacts of climate change and the importance of climate finance, and engage with the public to ensure that climate finance projects are aligned with their needs and priorities.
- **Address debt sustainability:** IFIs should address debt sustainability issues in their climate finance projects, to ensure that countries are not burdened with unsustainable debt.
- **Encourage innovation:** IFIs should encourage innovation in climate finance, by supporting new technologies and approaches to climate change mitigation and adaptation.

- **Ensure long-term sustainability:** IFIs should ensure that their climate finance projects are designed for long-term sustainability, and that they contribute to the achievement of the Sustainable Development Goals.

- **Recommendations for better IFIs-led initiatives to address L&D caused by climate change in the Asia Pacific region:**

- **Increase funding for L&D:** IFIs should increase their financial resources and funding for L&D projects and programs in the Asia Pacific region, particularly in vulnerable countries and communities.
- **Strengthen collaboration and coordination:** IFIs should strengthen collaboration and coordination with national and local governments, civil society organizations, and other stakeholders to better understand and address the L&D caused by climate change.
- **Enhance capacity building:** IFIs should enhance capacity building efforts to build the skills and knowledge of countries and communities to address L&D caused by climate change. This could include training programs, workshops, and technical assistance.
- **Promote community-based approaches:** IFIs should promote community-based approaches to address L&D caused by climate change. This could include supporting local initiatives and empowering communities to develop and implement their own adaptation and mitigation strategies.
- **Prioritize the most vulnerable:** IFIs should prioritize the most vulnerable countries and communities in the Asia Pacific region when allocating funding and resources for L&D projects and programs.
- **Ensure accountability:** IFIs should ensure accountability for L&D initiatives by establishing clear monitoring and evaluation mechanisms and reporting frameworks.
- **Support gender-responsive approaches:** IFIs should support gender-responsive approaches to address L&D caused by climate change, recognizing the unique vulnerabilities and contributions of women in the region.
- **Foster innovation:** IFIs should foster innovation in L&D initiatives by supporting new and emerging technologies and approaches.
- **Consider multiple perspectives**: IFIs should consider multiple perspectives in their L&D initiatives, including those of indigenous peoples, youth, and other marginalized groups.

- **Support policy and institutional frameworks:** IFIs should support policy and institutional frameworks that promote climate resilience and address L&D caused by climate change
- **Address social and cultural dimensions**: IFIs should address the social and cultural dimensions of L&D caused by climate change, recognizing the diverse cultural contexts of the region.
- **Ensure participatory decision-making**: IFIs should ensure participatory decision-making in L&D initiatives by involving affected communities in the design, implementation, and monitoring of projects and programs.
- **Build partnerships:** IFIs should build partnerships with other organizations and stakeholders to leverage resources and expertise in addressing L&D caused by climate change.
- **Promote knowledge-sharing:** IFIs should promote knowledge-sharing and learning among countries and communities to support the development of effective L&D initiatives.
- **Address long-term challenges:** IFIs should address long-term challenges in addressing L&D caused by climate change, including those related to governance, financing, and capacity building.

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