



SUSTAINABLE BANKING ALLIANCE LEARNING REPORT

*Engaging Local Financial Institutions to Integrate Climate
Finance Best Practices*

A How-to Guide based on Pilots in Colombia and Egypt

Submitted by DAI Global, LLC

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ACRONYMS AND ABBREVIATIONS

COP 27	2022 United Nations Climate Change Conference or 27 th Conference of the Parties of the United Nations Framework Convention on Climate Change
EBI	Egyptian Banking Institute
ESG	environmental, social, and governance
FI	financial institutions
GHG	greenhouse gas
KIFC	Kigali International Financial Centre
MVP	minimum viable product
NDC	Nationally Determined Contribution
SBA	Sustainable Banking Alliance
SBTi	Science Based Targets initiative
TA	technical assistance
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

The Sustainable Banking Alliance (SBA) is a USAID initiative launched in 2022 to partner with banks and microfinanciers (financial institutions, or FIs) to increase access to climate finance, promote the integration of climate finance best practices into FI operations, and increase the number of FIs making climate investments.¹ USAID introduced SBA at the 2022 United Nations Climate Change Conference or Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC), more commonly referred to as COP 27, that was held in Egypt, and announced initiatives in Colombia, Egypt, and Rwanda.² In alignment with the USAID Climate Strategy 2022–2030, the Agency is now looking to expand the SBA in other partner countries.

This “how-to guide” is a foundational resource that builds on the lessons learned from the SBA initiatives in Colombia and Egypt and provides guidance to USAID, specifically to Mission colleagues, on how to engage with FIs to integrate climate finance best practices. The first chapter of this document is organized as a step-by-step process, in which each step requires the execution of several proposed activities and leads to specific outputs, as shown in the exhibit below.

Steps to Partner with FIs to Support Integration of Climate Finance Best Practices



The steps are presented in a recommended sequence of implementation but can be reordered or skipped based on need. Each step includes challenges and lessons learned drawn from the SBA activities in Colombia and Egypt. The steps include estimated time for execution (not including time involved in procuring and contracting implementing parties). Both estimates are context specific and depend on the activities involved, number of stakeholders engaged, and so on. They are provided as a benchmark. The steps also present challenges and lessons learned drawn from the SBA activities conducted in Colombia and Egypt, and selected “Deep Dives” on key topics.

Several common themes emerge across the proposed steps:

- Performing a landscape analysis and engaging third-party stakeholders can be instrumental in identifying potential partner FIs.** Identifying prospective FIs interested in collaborating can be challenging. Many institutions face multiple obligations and may not be keen on forming climate finance partnerships, an issue that may seem important but not urgent. It is useful to conduct a thorough landscape analysis and engage with third-party stakeholders in the enabling environment who have extensive networks and legitimacy in the financial industry to assist in identifying potential partner FIs.

¹ <https://www.usaid.gov/news-information/press-releases/nov-09-2022-usaid-accelerates-climate-finance>

² This learning brief does not include Rwanda SBA as the activity is still underway.

- **Understanding the incentives that drive FI behavior is critical to design a demand-driven engagement.** FIs operate within a complex regulatory and market environment, influenced by a wide range of incentives that drive FI needs and opportunities to integrate climate finance best practices. Identifying key climate ‘pain points’ that are both urgent and important to FIs, ideally as a sector, can capture their attention and foster broad engagement. This understanding of incentives should extend beyond the institution and include the staff to be involved in climate finance engagements. It is important to identify what drives these teams to participate and perform well (for instance, potential career advancement and opportunities for thought leadership) and to design the proposed activities to align with these motivations.
- **Active relationship management is essential to securing sustained FI buy-in to integrating climate finance best practices.** This is because of the quick changes in the climate finance landscape and competing priorities on FI’s time. Speed and flexibility are paramount in this process and slow implementation pathways can introduce significant operational risks. To maintain FI demand, it is important to design engagement pathways with clear milestones and quick wins. This should include quick internal project approvals and reduced coordination requirements across different FI stakeholders.
- **Flexible and adaptive engagement leads to effective implementation.** The process of integrating climate finance into FI operations is not linear. It involves iterative execution, continuous learning, and adaptation. Often, FIs may not fully understand the opportunities and challenges they face, and engagements can help uncover previously unrecognized needs or opportunities. Preparing for unexpected changes ensures that the engagement can adapt to the evolving climate finance landscape. Moreover, it is essential to avoid duplication, particularly in countries where climate finance initiatives across multiple donors overlap. In such contexts, delays in execution can result in other initiatives taking precedence, thereby diminishing the impact of the original engagement.
- **Engage enablers and complementary stakeholders for maximum impact.** Certain stakeholders can play pivotal roles as enablers and can facilitate engagements with FIs. The ability of these stakeholders to support the execution of activities is influenced by the structure of the financial system and may depend on their formal regulatory or supervisory roles (such as those held by central banks or ministries of finance), their ability to bring together FIs (such as through associations) or facilitate transactions (such as through public insurance providers). Complementary engagements with non-FI stakeholders may be necessary to support the integration of climate finance best practices in the sector. Potential activities with these enabling stakeholders may, for example, involve enforcing green taxonomies to standardize the identification of FI assets contributing to emissions reductions and climate adaptation, and developing or upgrading publicly available systems for collecting, analyzing, and disseminating climate data to help FIs estimate climate related risks or their carbon footprint.

Following the step-by-step guidance, Chapter 2 presents information on engagements with the broader enabling environment to advance climate finance, including proposed activities for the Mission’s consideration. It is often useful to engage with key non-FI public and private stakeholders to increase the chances of FI buy-in and long-term impact in the financial sector. Subsequently, Chapter 3 provides details on the case studies in Colombia and Egypt. Annex I includes additional references for further consideration.

OVERVIEW OF THE SUSTAINABLE BANKING ALLIANCE

The Sustainable Banking Alliance (SBA) is a USAID initiative launched at the United Nations Framework Convention on Climate Change 27th Conference of the Parties (COP 27) in 2022.³ Under the SBA, USAID partners with banks and microfinanciers (defined as financial institutions, or FIs) to improve access to climate finance and increase the number of FIs making climate investments. USAID implements the SBA by collaborating with FIs to integrate climate finance best practices in their operations. This may involve strengthening FIs' capacity to measure, report, and mitigate their exposure to climate-related risks, take advantage of new market opportunities, decrease their financed greenhouse gas (GHG) emissions, incorporate climate change into their governance systems, and/or develop targets, services, and products to increase climate investments.

After COP 27, USAID initiated SBA activities in three countries as parts of larger projects: in Colombia (under USAID INVEST), Egypt (under USAID Business Egypt), and Rwanda (under USAID Africa Trade and Investment)⁴. They were implemented by DAI in collaboration with local partners (including Dalberg and KPMG) and with enabling organizations such as the Egyptian Banking Institute (EBI) and Asobancaria in Colombia.

The SBA activity in Colombia took place between October 2022 and December 2023. It included a rapid diagnostic assessment on climate finance practices for six Colombian FIs, group capacity strengthening for 22 FIs, the development of a financed emissions calculator available to national FIs, and individual technical assistance (TA) for six FIs to support the adoption of the calculator. The activity in Egypt started on March 2023 and, as of September 2024, is still ongoing. Group capacity strengthening to FIs has reached 28 FIs and concluded in March 2024. Currently, Business Egypt is designing individual TA pathways with seven banks that are tailored to address their specific capacity strengthening and TA needs. Additional information on the SBA activities is included in Chapter 3.

³ <https://www.usaid.gov/news-information/press-releases/nov-09-2022-usaid-accelerates-climate-finance>

⁴ This learning brief does not include Rwanda SBA as the activity is still underway.

HOW TO USE THIS GUIDE

This “how-to guide” is a foundational resource designed to provide guidance to USAID Missions to engage with FIs to strengthen their integration of climate finance best practices within their operations. It is organized as a step-by-step guide, where each step requires the execution of several proposed activities and leads to specific outputs. The level of detail provided for each individual step and its associated activities is comprehensive, but not exhaustive.

The steps are presented in a recommended sequence of implementation but can be reordered or skipped based on need. Given the comprehensive nature of the proposed steps and activities under this guide, each USAID Mission is encouraged to tailor steps to the local context, and potentially reduce the scope depending on available resources, needs, and familiarity with climate finance. Each step is designed as an independent module, allowing it to be read as a standalone section, with some intentional overlap in the information presented across the steps. The steps offer challenges and lessons learned drawn from the SBA activities conducted in Colombia and Egypt, and present selected “Deep Dives” on key topics.

Chapter 2 of this guide presents information on engagement with the broader enabling environment to advance climate finance, including proposed activities for the Mission’s consideration. Chapter 3 presents details on the case studies in Colombia and Egypt. Annex I provides references to third-party sources for readers to dig deeper. The Guide does not specify the entities responsible for executing the proposed activities, with the assumption that in most cases these will be carried out by USAID implementing partners.

A Note on Terminology Used in This Guide

- *Climate finance*: Local, national, or international financing from public and private sources to support mitigation and adaptation actions that address climate change.
 - *FI climate finance best practices*: Guidelines, tools, and processes used by FIs to identify, assess, manage, and disclose climate-related risks and opportunities that are considered best practices by the financial community. These practices aim to integrate climate considerations into an FI’s governance, risk management, product development, and client engagement processes, ensuring that financial activities align with sustainable development and climate goals and contribute to the transition to a low-carbon economy. Some examples of these best practices include (but are not limited to) an FI’s capacity to measure, report, and mitigate its exposure to climate-related risks, decrease its financed GHG emissions, offer green investment products and mobilize private climate finance, and incorporate climate considerations into their decision-making and governance.
 - *Climate finance vision*: Step 3 in this guide proposes agreeing with the FI on a vision to integrate climate finance best practices. A climate finance vision articulates the climate finance objectives to be met by each FI. It involves agreeing on the engagement outcomes that will result in the FI integrating some climate finance best practices in its operations.
 - *Engagement pathway*: The specific activities, timelines, outputs, and costs to achieve the climate finance vision. This guide examines two engagement pathways in detail: 1) group capacity strengthening and individual technical assistance (TA) to offer tailored guidance and support to FIs, and 2) the development of tools to help integrate climate considerations into FI decision-making processes. Other potential pathways, which are not covered in this guide, include creating climate-specific guidelines or frameworks for reporting or improved risk management, establishing improved governance and oversight for climate-related risks and opportunities, and participating in industry forums, working groups, or multi-stakeholder initiatives to promote knowledge sharing and collaboration.
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CHAPTER 1: STEPS TO PARTNER WITH FIS TO SUPPORT INTEGRATION OF CLIMATE FINANCE BEST PRACTICES

STEP 1: LANDSCAPE ANALYSIS AND PROSPECTIVE PARTNER SELECTION



DESCRIPTION

Step 1 involves conducting a landscape analysis to understand key challenges and opportunities for climate finance in the financial sector and identifying prospective FI partners. The key outputs for this step follow: a) the identification of potential climate finance best practices to be integrated by FIs (to be confirmed in Step 2); and b) a shortlist of potential FI partners.



Based on the Egypt activity (Colombia's activity did not include a landscape analysis), the estimated time needed to execute Step 1 is 1 month. The proposed activities for Step 1 include the following:

a. Conduct a high-level landscape analysis of the financial sector for climate finance.

- Identify key challenges and opportunities in the financial sector (especially focused on FIs) for climate finance, including the scale and trends in public and private finance. Produce an overview of financing gaps for borrowers.
- Highlight relevant regulatory, policy and market barriers, and opportunities for climate finance.
- If necessary, consider conducting a deeper analysis of the enabling environment for climate finance.

b. **Identify potential climate finance best practices in demand by FIs** (such as measuring exposure to climate-related risks and availability of green loans) that may help FIs respond to the opportunities and gaps identified above. Map out similar activities conducted by the public sector or donors to ensure additionality of any future USAID-funded interventions.

c. **Compile a list of potential partner FIs.** Based on the analysis above and potential climate finance best practices, research and compile a list of potential FIs that may be interested in partnering with USAID to integrate climate finance best practices.

d. **Identify and connect with other stakeholders in the enabling environment** (such as regulators, FI associations, policymakers, and climate experts) that have strong relationships and legitimacy/credibility among potential FI partners (for more details on enabling environment, see Chapter 2).

- Request suggestions on potential FI partners to add to the list above.
- Explore interest in collaborating to support potential engagement with FIs to foster their integration of climate finance best practices.

- Generate demand and buy-in among FIs for prospective offering.

e. **Define selection criteria to shortlist potential FI partners from the list developed above** (to be further streamlined during the diagnostic analysis in Step 2). A detailed list of potential selection criteria is included in the Deep Dive below and may include:



- Operational fit, such as geographic scope or sector focus.
- Financial criteria, such as profitability, size, and risk management.
- Commitment to integrating climate finance best practices as determined by, for example, buy-in from management, climate finance know-how and existing climate targets.
- Ability to engage in a potential partnership with USAID as determined by, for example, potential cost-share and prior partnerships with other donors.



f. **Apply the selection criteria to the potential partner list and analyze the FI shortlist and data results:**



- Assess the potential FI partners based on the defined criteria.
- Rank or prioritize the potential partners based on the assessment results.
- Engage other stakeholders to provide feedback on FI selection, as needed.

g. **Finalize shortlist of potential FI partners for more detailed diagnostic analysis.** Based on the landscape analysis, identify suitable potential partners for a more detailed diagnostic analysis of FI needs and opportunities (Step 2) to determine potential pathways for engagement (Step 3).

For most USAID Missions that have established engagements with FIs, this analysis can be a high-level, reasonably quick analysis to identify the initial short list of FIs.

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>Difficulties in identifying prospective FIs and lack of FI demand for partnering.</p> <p>Due to the diverse nature of the financial sector and varying levels of commitment to climate finance, FIs may not be interested in collaborating on climate finance.</p>	<p>Collaborate with key third party stakeholders in the enabling environment to identify candidate partner FIs and generate demand for upcoming USAID-funded activities.</p> <p>It is useful to collaborate with organizations that have extensive networks and legitimacy in the financial industry to identify FIs interested in integrating climate finance best practices and to help generate demand USAID climate finance initiatives and enhance their effectiveness and reach within the financial sector. These collaborating partners can also convene FIs, foster widespread buy-in by facilitating aggregated and scalable FI engagements, and encourage adherence to national and international environmental, social, and governance (ESG) and climate reporting standards. Such collaboration can help generate demand from FIs and drive systemic change within the financial sector. For more detail on relevant third-party stakeholders see Chapter 2.</p>
<p>Other donor initiatives may reduce FI ability and willingness to engage.</p>	<p>Mapping out other similar FI engagements is essential to assess additionality and FIs’ ability to participate.</p> <p>Identifying FIs’ participation in other initiatives is crucial for selecting FIs and designing FI engagements. Map out these activities and assess the potential value-added per dollar spent in engaging FIs already receiving substantial support compared to those that are not, because participation in other climate finance initiatives may impact FIs’ willingness and ability to engage further, and engaging with FIs already involved in other activities</p>

 GAPS/CHALLENGES	 LESSONS LEARNED
	<p>may result in costs to coordination with other donor initiatives. By considering existing FI participation in other climate finance initiatives, USAID can optimize resource allocation, minimize duplication of efforts, and maximize the impact of its own climate finance initiatives.</p>
<p>Limited collaboration in competitive environments.</p> <p>FIs may be reluctant to share details of their internal systems and processes, collaborate on the proposed USAID engagement, or share information, including challenges and lessons learned, especially with a consulting firm engaging with their competitors.</p>	<p>Navigate competitive dynamics for effective collaboration.</p> <p>It is crucial to grasp the competitive dynamics among FIs. Identify the closest competitors and, where possible, avoid working across FIs that engage in heavy competition. Additionally, assure FIs that sensitive information will be handled confidentially and not be shared with direct competitors, highlight mutual benefits of collaboration, and encourage participation despite competition. Third-party stakeholders like FI associations and industry initiatives can sometimes bridge this divide (see Chapter 2).</p>
<p>Potential resistance from FIs that are more advanced in climate finance.</p> <p>FIs already deeply involved in climate finance may sometimes think that the proposed activity threatens their climate finance leadership and competitive advantage. They may also be “locked in” to existing tools, practices, and systems, making them resistant to engaging in a partnership.</p>	<p>Define alternative engagement strategies for advanced FIs.</p> <p>To overcome this resistance, the landscape analysis should first identify advanced FIs deeply involved in climate finance and then explore tailored ways to build demand. During the landscape analysis, seek to demonstrate how broader sector adoption of common climate finance best practices does not necessarily erode the competitive advantage of a FI climate finance leader. Instead, it helps advance broader sustainability goals across the industry. For advanced FIs, tailor engagement pathways to emphasize the need for incremental improvements and highlight the benefits of adopting new practices to complement existing ones (see Step 2 for diagnosing FI needs and opportunities for advanced FIs, and Step 3 on determining engagement pathways).</p>
<p>Limited usefulness of quantitative selection criteria.</p> <p>Quantitative FI selection criteria can sometimes underestimate an FI’s effective commitment to climate finance initiatives.</p>	<p>Selection criteria should include key qualitative variables to estimate FIs’ willingness and ability to engage.</p> <p>Understanding the willingness of FIs to engage is necessary for successful implementation. The selection criteria for engaging FIs in climate finance initiatives should incorporate qualitative variables to assess willingness and ability to engage. FIs’ appetite for engagement is influenced by various financial and regulatory incentives (explained in Step 2). When assessing FIs’ engagement appetite, consider their proposed contributions to a potential climate finance engagement, including cost-sharing or in-kind commitments, existing or potential climate targets, and the number and seniority of staff to participate in the engagement.</p> <p>Some FIs may be willing but unable to engage fully due to:</p> <ul style="list-style-type: none"> • Limited staff availability, necessitating a more targeted approach to account for their limited time. • Limited understanding of climate finance challenges, opportunities, and strategic direction. These FIs require broader and more exploratory engagements in order to develop a thorough foundation of the potential benefits and requirements of climate finance practices that they want to prioritize for integration.
<p>Too much heterogeneity in the selection of participating FIs</p> <p>Ideally climate finance initiatives should include a broad range of FIs to ensure comprehensive sectoral development. However, too broad a range of diversity among the FIs that have varying levels of sophistication, customers, needs, and</p>	<p>Finding the right balance in FIs for climate finance initiatives is crucial for maximizing impact and effectiveness.</p> <p>To address this challenge, it is important to strike a delicate balance. While heterogeneity allows different FIs to contribute diverse perspectives and experiences and may increase impact at a sector level, homogeneity ensures they have similar sets of needs and challenges. Understanding each FI’s strategic focus and degree of sophistication is critical in achieving this balance. Aggregating FIs into different groups based on their similarities can</p>

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>challenges can pose challenges to implementation. For example, the needs of a profitable, large bank focused on real estate in coastal areas are likely vastly different than those of a rural microfinance institution with lighter processes and different exposure to climate-related risks. These differences can pose challenges in the design and delivery of FI support because the content needs for different business models and risks are so diverse.</p>	<p>also help mitigate this problem, although it may increase engagement costs.</p> <p>The common characteristics that should be most similar across FIs will mostly depend on the FI's operational fit with the proposed activities (business model, geographic and sector focus, and so on).</p>

DEEP DIVE: SELECTION CRITERIA

Selection criteria can be used to shorten an initial list of potential FI partners for Step I. When selecting partner FIs, make sure that the FI operations are aligned with USAID's target geography, sectors, or type of borrower, and to consider both quantitative and qualitative criteria.

The following list is a menu of potential options. Not all criteria below may be applicable to every potential project or feasible to collect—be realistic about FI data availability and quality as well as FI sensitivities in sharing data.

a. FI operational fit.

- Business model (such as commercial banking and investment banking).
- Geographic and sector (such as agriculture and construction) focus.
- Customer segments and target markets.

b. Quantitative criteria.

- Financial performance.
 - Capital adequacy ratios (such as Tier 1 capital ratio).
 - Asset quality (such as non-performing loan ratio).
 - Profitability ratios (such as return on assets and return on equity).
 - Liquidity ratios (such as loan-to-deposit ratio).
- Market position.
 - Asset size and market share.
 - Geographic reach and branch network.
 - Customer base size and growth.
- Risk management.
 - Credit rating from agencies.
 - Risk-weighted assets.

- Loan loss reserves.
- Climate finance portfolio and growth trends.
 - Number of green loan products offered.
 - Volume of existing climate finance investments (mitigation and adaptation).
 - Share of climate finance in the institution's overall portfolio.
 - Geographic distribution of climate finance projects.
 - Sectoral distribution of climate finance projects (such as, renewable energy, sustainable agriculture, and climate-resilient infrastructure).
 - Any green fundraising activities, such as issuance of green bonds or loans from development financial institutions with green earmarks or covenants.

c. Qualitative criteria (mostly focused on criteria that can help assess the FI's willingness and ability to engage for the proposed engagement).

- Strategic alignment with climate finance.
 - Current and prospective climate finance strategies and targets.
 - Alignment of organizational cultures and values toward sustainability.
 - Shared vision for addressing climate change challenges.
- Potential FI cost-sharing contribution to the proposed engagement (monetary and in-kind) or to commitment to continue the integration of climate finance best practices once the partnership has concluded.
- Participation in other similar climate finance initiatives (such as from European Union donors) and ability to commit sufficient resources to the proposed climate finance activity (for example, potential counterpart teams may already be committed to other similar initiatives).
- Climate finance management and governance.
 - Number and seniority of staff actively involved in ESG and climate finance.
 - Integration of ESG and climate factors in decision-making processes.
- Regulatory compliance.
 - Adherence to ESG and climate finance reporting and disclosure requirements.
 - Robust frameworks for managing climate risks (transition and physical risks).
 - Alignment with national and international climate finance standards and principles.
- Technological capabilities.
 - Strength of digital banking platforms and fintech solutions.
 - Ability to innovate, adapt to new technologies, and integrate new tools.
 - Cybersecurity and data protection measures.
- Climate stakeholder engagement.
 - Processes for assessing and mitigating environmental and social impacts.

- Collaboration with civil society organizations and climate experts.
- Mechanisms for engaging local communities and stakeholders.

STEP 2: DIAGNOSTIC OF FI NEEDS AND OPPORTUNITIES



DESCRIPTION

Step 2 involves conducting a diagnostic analysis on the shortlisted partner FIs (from Step 1) to identify incentives driving FI needs and opportunities to integrate climate finance best practices. Key outputs from this step follow: a) a final list of potential FI partners; and b) a confirmation of climate finance best practices in demand by prospective FI partners.



Based on the Colombia activity, the estimated time to execute Step 2 is 1.5 to 2 months, though it may be longer depending on stakeholder availability. The proposed activities for Step 2 follow:

a. Gather additional information on shortlisted FIs regarding their incentives to integrate climate finance in their operations.

- Identify key incentives driving FI needs and opportunities to integrate climate finance in their operations. Some common incentives include:
 - Regulatory and reporting compliance: Adherence to climate finance reporting, disclosure requirements, and risk management demands from national policymakers and international investors. These demands often drive the need for climate finance solutions that improve FI risk management practices and capabilities to track, measure, and report climate-related risks and financed GHG emissions and can also be one of the key drivers for the adoption of climate targets (see Step 5).
 - Financial and market opportunities: FIs are increasingly attuned to the opportunities in climate finance that can accelerate capital deployment. Engagement efforts in this area typically focus on overcoming challenges that hinder green loan approval and disbursement. This may involve training loan officers to better understand green loan characteristics, and improving product fit with customers.
 - Operational risks: High exposure to physical risks (climate-related disasters), transition risks (policy changes, technology shifts), reputational risks associated with investing in polluting businesses, and more.
 - Strategic alignment: Compatibility of climate finance strategies and targets with the institution's overall objectives and organizational culture.
- Potential sources to gather this information include:
 - Senior staff across multiple teams in shortlisted FIs.

- Third-party stakeholders (such as regulators, shareholders, FI associations, policymakers, and climate experts). These third-party stakeholders may be similar to those engaged under Step 1.
- Any relevant data collected during landscape analysis (see Step 1).



b. Identify the most suitable climate finance best practices that respond to FI incentives.



- Identify the most suitable climate finance best practices that would align with the identified key incentives, respond to needs and opportunities for FIs to integrate climate finance best practices.
- Prioritize the most salient “pain points” common to those FIs to ensure continued FI buy-in and to galvanize broad support.
- Prioritize potential partner FIs based on their willingness and ability to collaborate to integrate climate finance best practices.

c. Develop recommendations for a vision and an engagement pathway to integrate climate finance practices with FIs. Develop recommendations for a vision to integrate selected climate finance best practices with FIs and for an initial engagement pathway to implement that vision (to be fully developed in Step 3).

d. Engage other important non-FI stakeholders in the enabling environment. Explore potential collaboration opportunities with stakeholders in the enabling environment (some of whom may have been identified in the landscape analysis under Step 1 or during earlier activities in this diagnostic analysis) that may increase chances of success of the engagement with FIs and maximize its impact. For example, this may include:

- Building on third-party stakeholders’ strong relationships and legitimacy/credibility among potential FI partners to continue driving demand among FIs, as discussed in Step 1.
- Working with FI regulators seeking to enforce FI reporting regarding climate risks, or FI associations working with their FI members to help them integrate climate finance best practices (for more details see Chapter 2).

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>Unclear understanding of the incentives driving FI behavior.</p> <p>FIs operate within a complex regulatory and market environment, driven by a diverse set of incentives. Without a clear understanding of these incentives, practitioners often struggle to design climate finance initiatives that effectively address FIs' needs and may result in limited FI engagement.</p>	<p>Align proposed climate finance best practices with FI incentives for climate finance integration.</p> <p>Identifying FI needs and opportunities for FIs requires a thorough understanding of the incentives driving their behaviors. This ensures that FI engagements are demand-driven and respond to FI’s needs and opportunities. FIs are often motivated by two types of incentives: regulatory and reporting compliance, and financial and market opportunities. These incentives are not mutually exclusive. FIs may prioritize risk management activities to respond to regulatory and reporting demands, while also exploring green capital deployment initiatives to take advantage of financial and market opportunities.</p>
<p>Difficulties in prioritizing value-added opportunities for a FI partnership.</p> <p>A diagnostic assessment can uncover multiple opportunities to integrate climate finance best practices. However,</p>	<p>Prioritize the most salient common “pain points” that can galvanize FI buy-in and accelerate action.</p> <p>During the landscape analysis (Step 1) and diagnostic assessment, FIs may highlight a particularly pressing need, typically driven by impending changes in regulations or specific climate-related risks affecting a sector to which the</p>

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>prioritizing the most appropriate opportunities can be challenging due to the multitude of factors involved (such as resources and long-term strategic objectives).</p>	<p>financial industry is highly exposed. This “pain point” is often context-specific and can help galvanize individual and collective demand for a partnership that includes a comprehensive set of activities outlined in the engagement pathway. In some cases, such common FI galvanizing “pain points” may not be readily apparent and it may be useful to engage non-FI stakeholders for their advice and guidance.</p>
<p>Using a diagnostic assessment only as an evaluation tool.</p> <p>When diagnostic assessments are viewed as mere evaluation tools, USAID may miss the potential to generate buy-in, inform strategic planning, and drive institutional change.</p>	<p>A well-designed diagnostic assessment can increase FI buy-in and offer insights into sector-wide trends and challenges.</p> <p>Diagnostic assessments can serve as a pivotal tool to identify FI climate finance needs and opportunities and generate buy-in and engagement. By presenting a diagnostic assessment as a framework common to participating FIs, practitioners can emphasize its usefulness as a roadmap to incorporate climate finance best practices and commit to climate goals such as achieving net-zero emissions. Furthermore, diagnostic assessments can be used to identify potential resistance to adopting climate finance best practices, such as existing counterproductive processes or negative team dynamics.</p> <p>Repeating these assessments over time can be instrumental in demonstrating progress and evolution in FI capabilities, while also supporting learning and adapting engagement activities. This iterative approach reinforces the value of engagement and highlights areas of improvement, enhancing transparency and accountability. Also, comparative analysis of participating FIs can offer insights into sector-wide trends and challenges, guiding collective efforts for sector-wide transformation.</p>
<p>Misuse of the diagnostic assessment can reduce FI buy-in.</p> <p>Common pitfalls, such as excessive focus on negative results, diagnostic fatigue, and confidentiality concerns, can reduce FIs’ willingness to participate and collaborate. Navigating these challenges requires careful management to ensure that assessments remain productive and contribute to achieving climate finance goals.</p>	<p>Avoid some common diagnostic pitfalls that can reduce buy-in: low scores, diagnostic fatigue, and confidentiality concerns.</p> <p>Navigating common diagnostic pitfalls is crucial to maintaining FI buy-in and engagement throughout the assessment process. Be mindful of several factors that may inadvertently reduce buy-in:</p> <ul style="list-style-type: none"> ● Practitioners should handle negative diagnostic results with care, as FIs may be disappointed with low scores or may question the practitioner’s understanding of climate finance. Emphasizing areas for improvement rather than weaknesses and framing the assessment as a narrow subset of climate finance practices can help maintain a positive engagement. ● Practitioners should consider the capacity of FIs to participate in detailed diagnostic assessments. Institutions suffering from “diagnostic fatigue” may hesitate to engage if assessments are viewed as too long. Balancing the need for comprehensive analysis with the risk of overwhelming FIs is essential to prevent disengagement. ● FIs may be reticent to share sensitive information during the diagnostic assessment, especially in competitive environments. Requesting overly confidential information may decrease buy-in and hinder the effectiveness of the assessment process (as mentioned also in Step 1).

STEP 3: ENGAGEMENT PATHWAY DEVELOPMENT



DESCRIPTION

Step 3 involves co-creating with the FI an engagement pathway to integrate climate finance best practices. The key output for this step is agreeing with the FI on a vision to integrate these practices and on a pathway to incorporate them into FI operations.



Based on the Colombia activity (Egypt’s activity has not yet included the development of individual engagement pathways) the estimated time to execute Step 3 is 0.5 months to 1 month. This estimate depends on the number of FIs involved and how comprehensiveness of the diagnostic assessment under Step 2. The proposed activities for Step 3 include the following:

a. Map key teams and individual counterparts to engage for the integration of climate finance best practices.



- Identify the relevant teams and individuals in FIs that need to be engaged to integrate the prioritized climate finance best practices. This may include:
 - Risk management teams responsible for measuring, analyzing, and monitoring climate-related risks.
 - Finance and reporting teams responsible for generating internal and external climate reports to management and the board, as well as to regulators and shareholders.
 - Transaction teams (such as lending and advisory) responsible for originating and executing climate finance investments.
 - Sustainability teams responsible for integrating environmental and social sustainability principles into the FI’s operations, strategies, and decision-making processes.
 - Senior leadership and management teams responsible for setting the FI’s strategic direction and allocating organizational resources.
- Understand the roles, responsibilities, motivations, workload, and decision-making processes of each team to determine the appropriate level and type of engagement required.
- Map out operational relationships between teams across the FI.

b. Agree with these teams on a vision to integrate selected climate finance best practices. Build on the broader recommendations for a vision to integrate climate finance practices with FIs (developed in Step 2) and co-create a climate finance vision specific to each FI. This vision needs to articulate the climate finance objectives to be met by the FI.



c. Secure buy-in from any relevant third-party stakeholders in the enabling environment (such as public sector supervisory and regulatory entities) for the climate finance vision with FIs.

d. Map out and design engagement pathways to implement the climate finance vision.

- Consider different engagement pathways, such as group capacity strengthening , developing institutional knowledge by developing a curricula and trainers, and one-on-one TA to enhance knowledge and skills related to climate finance (explored in more detail in Step 4a) and the development and integration of climate finance tools (see Step 4b).⁵
- Develop a comprehensive engagement pathway that outlines the specific activities, timelines, outputs, and costs (including a potential FI counterpart) for engaging with different teams within FIs. Prioritize the most salient “pain points” (as described in Step 2) within those FIs to ensure continued FI buy-in.
- Account for the following criteria when determining the most effective engagement pathways (these will typically overlap with the selection criteria used under Step 1):
 - Potential impact of the pathway, including adopting climate targets or meeting existing ones (for more detail on these targets see Step 5).
 - Level of existing knowledge and awareness about climate finance within the institution.
 - Resource availability (time, budget, personnel) for engagement, including cost-sharing.
 - Potential for scalability and replicability of engagement across the institution or industry.
 - Potential overlaps and synergies between potential climate finance practices to be integrated and other FI sustainability initiatives.
- Ensure that the FI commits the right team/individuals to support the implementation of the engagement plan.
- Establish mechanisms with the FI for monitoring, evaluating, and adjusting the engagement plan as needed based on feedback and progress.
- Agree on additional complementary support to non-FI stakeholders in the enabling environment (such as industry associations and regulatory bodies) that may increase chances of success of the engagement with FIs and maximize its impact (for more details on enabling environment stakeholders see Chapter 2).

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>Overly long engagement pathways.</p> <p>Engagement pathways that are slow to implement activities can generate significant operational risks. This is because of the quick changes in climate finance standards and regulations, possible FI dissatisfaction, and potential opportunity costs of missing windows of opportunity for impact or funding. Also, FIs often face competing priorities, including similar climate finance commitments with other donors, which can result in decreased engagement.</p>	<p>Speed is critical.</p> <p>The time required to meet the goals of a proposed engagement pathway is a key factor in maintaining FI demand. Design engagement pathways with milestones and quick wins that can be met in relatively short periods (while ensuring that impact/quality is not compromised), agree on quick internal project approvals and reduce need for coordination within different FI stakeholders. These quick wins can show immediate results, increasing institutional and team buy-in, and build momentum for follow-on and longer-term activities.</p>

⁵ Other pathways, which are not covered in this guide, include creating climate-specific guidelines or frameworks for reporting or improved risk management, establishing improved governance and oversight for climate-related risks and opportunities, and participating in industry forums, working groups, or multi-stakeholder initiatives to promote knowledge sharing and collaboration.

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>Inflexible engagement pathways that do not incorporate learning and adaptation or the ability to adjust to exogenous shocks.</p> <p>Practitioners can sometimes overlook the dynamic nature of engagement pathways with FIs in climate finance. There is often an assumption that the process is linear. Misunderstanding this complexity can lead to ineffective engagements and missed opportunities for impact.</p>	<p>Build flexibility into engagement pathways.</p> <p>Designing an engagement pathway for FIs to integrate climate finance is not a straightforward and linear process. It involves iterative execution, learning, and adaptation. Proposed pathways should build in some flexibility to FIs' evolving needs and challenges as they progress in their climate finance journey. Additionally, as FIs engage in climate finance initiatives, they may encounter new regulatory requirements and emerging standards. Preparing for unexpected changes ensures that the engagement can adjust to the shifting landscape of climate finance.</p>
<p>Focus only on one FI team.</p> <p>Climate finance engagements can sometimes become overly focused on addressing the needs of one single team within FIs, neglecting the needs of other FI teams and overlooking the potential ripple effect of an activity across multiple teams. This narrow focus may hinder the overall integration of climate finance practices within the FI.</p>	<p>Integrating climate finance best practices into FIs requires developing a holistic value proposition and engaging multiple teams in each FI.</p> <p>Climate finance engagements should be part of a broader agenda to drive meaningful changes in the FI's day-to-day operations. Achieving institutional integration of climate finance best practices involves securing buy-in across various teams in an FI (such as commercial, risk, and reporting), each playing a unique role in incorporating these practices. Where possible, climate finance initiatives should involve crafting demand-driven engagements that address the specific needs and challenges of each team.</p>
<p>Limited inclusion of sustainability teams in climate finance discussions.</p> <p>FI sustainability teams can sometimes be overlooked in climate finance engagements, with more focus given to teams perceived as more critical, such as risk management and commercial teams. This sidelining can hinder the impact of potential engagements result in missed opportunities to integrate climate finance in FI operations.</p>	<p>Leveraging sustainability teams to drive more comprehensive climate finance integration.</p> <p>The responsibilities of sustainability teams at FIs are diverse. Some teams have a narrower focus, such as inclusion, while others cover broader areas like ESG strategy development, product development, risk management, and reporting. These teams often present an excellent entry point to initiate engagement with the FI. In many cases, sustainability teams can also help an FI engagement to move beyond a limited scope (such as integrating a specific climate finance best practice) toward a more comprehensive integration of climate finance in the FI, including adopting climate targets.</p>

STEP 4A: CLIMATE FINANCE CAPACITY STRENGTHENING AND TECHNICAL ASSISTANCE



DESCRIPTION

Step 4a involves providing climate finance group capacity strengthening - such as building institutional knowledge through curricula development, embedded advisors, training of trainers- and individual TA to FIs. It is one of the potential pathways to be identified under Step 3. The key output for this step is delivering a suite of group climate finance capacity strengthening sessions and/or individual TA to FIs.



Based on the Colombia and Egypt activities, the estimated time to execute Step 4a is highly variable and depends on factors such as stakeholder availability and whether capacity strengthening is in person or remote and individual or collective. While Colombia's capacity strengthening and TA was implemented in 3 months, Egypt's activities were spread out throughout a full year. The proposed activities for Step 4a include the following:

- a. **Assess FI needs and gaps.** Conduct a needs assessment to identify the existing knowledge levels, technical skills, and capacity gaps related to climate finance in the target FIs. Most of this assessment is likely to have already taken place as part of the diagnostic of FI needs and opportunities under Step 2 and during the development of a climate finance vision under Step. In those instances, this assessment may not be needed.
- b. **Prioritize key topics for capacity strengthening and TA** (a list of potential topics is included in the Deep Dive Section below).
- c. **Design climate finance capacity strengthening and TA materials tailored to local context.**
 - Develop capacity strengthening and TA materials that are tailored to the specific needs and gaps of recipient FIs, considering factors such as geographic location, climate risks and opportunities, and expertise of prospective attendees.
 - Reinforce content with relevant examples from other countries and provide practical exercises that use country- and sector-specific data, such as ways to align GHG target-setting with the goals of that country's Nationally Determined Contribution (NDC).
 - Identify and leverage existing training resources, technical tools, and best practices to avoid duplication of efforts.
 - Engage additional climate finance experts, practitioners, and thought leaders to contribute their expertise.
 - Coordinate with any relevant enabling stakeholders for co-development or delivery of capacity strengthening and/or TA, such as industry associations, academic institutions, or specialized training providers (ideally local) to identify existing climate finance capacity strengthening offerings. Potentially co-develop and jointly deliver training programs (for more details on enabling environment see Chapter 2)

- Incorporate recommendations for how to stay abreast of changes after the capacity strengthening and/or TA.

d. **Establish delivery mechanisms.** Determine the most effective delivery mechanisms, timelines, and resource allocation.

Group Capacity Strengthening

Group capacity strengthening refers to joint training to a group of FIs. Group capacity strengthening sessions offer several **advantages** for engaging FIs seeking to integrate climate finance best practices:

- Group sessions promote a shared understanding of key climate finance concepts, fostering transparency within the sector. This shared understanding can be instrumental to align practices and goals across institutions and improving sector-wide collaboration.
- These sessions are well-suited for covering a broad range of topics at a relatively basic level and introduce foundational concepts to a wide audience. They can also be useful in supporting the adoption of industry-wide standards and goals.
- They allow for cost-efficient sharing of foundational climate finance training across FIs.
- Group settings enable interactive peer-to-peer activities, such as group case studies and sharing real-life experiences, enhancing engagement and understanding.

However, there are important **weaknesses** associated with group capacity strengthening that can be partially mitigated through careful selection of FIs (also mentioned under Section 2):

- Addressing the needs of a heterogeneous audience with varying levels of knowledge and expertise can be challenging, potentially leaving some participants unsatisfied.
 - Competition among FIs can inhibit open discussion and knowledge sharing.
 - It can be difficult to ensure active engagement from all participants, particularly in online settings, where distractions may reduce effectiveness and limit meaningful interaction.
-

Individual Technical Assistance

Individual technical assistance refers to advisory services offered to a single FI. This TA can offer **advantages** to engage FIs for the integration of climate finance best practices:

- These sessions are well-suited for covering a narrow range of topics with significant technical depth, addressing the specific needs of individual FIs. This depth of focus allows for detailed exploration of complex issues, facilitates more effective problem-solving, and ensures that the TA is directly relevant to FI's operations.
- This kind of TA provides an opportunity for hands-on joint development of tools that are customized to FI systems and processes, enhancing their applicability and effectiveness.
- Individual sessions make it easier to engage with multiple teams within an institution. This creates the opportunity to offer climate finance solutions with reduced negative ripple effects across an institution and can allow for more focused discussions and targeted support.



However, there are **weaknesses** associated with individual TA as well:

- Consultants often require time to build relationships and gain trust to properly assess strategic entry points for TA. This process can be time-consuming and may delay the initiation of some activities.
 - Individual TA tends to be cost more than group capacity strengthening.
 - Individual TA may not be suitable for broader and more exploratory initiatives, as the focus is primarily on addressing specific needs of the FI.
-

e. **Deliver climate finance capacity strengthening/TA.**

- Implement the capacity strengthening and TA programs, ensuring effective communication, logistical support, and participant engagement.

- Continuously evaluate FI satisfaction and impact of the programs through participant feedback, knowledge assessments, and impact measurements.
- Foster ongoing knowledge sharing and collaboration and encourage peer-to-peer learning among participants.

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>Challenges in balancing depth and breadth in covering climate finance best practices during capacity strengthening and technical assistance.</p> <p>Diagnostic assessments often reveal a wide range of needs within FIs to effectively integrate climate finance practices. Designing engagements that cover every requested need poses a significant challenge. When attempting to cover too much ground, it becomes difficult to delve deeply into each area, potentially compromising effectiveness.</p>	<p>Find the right balance between a “mile wide/inch deep” and an “inch wide/mile deep” in delivering capacity strengthening and technical assistance.</p> <p>In general, a phased approach that starts broad and then narrows down to specific focus areas can maximize the effectiveness of the proposed initiatives. Beginning with a “mile wide/inch deep” group capacity strengthening approach that prioritizes a common basic understanding can sometimes be beneficial for generating engagement and buy-in from FIs. This initial broad engagement allows for a comprehensive overview of climate finance needs across participating FIs. It also lays the groundwork for re-evaluating each FI’s specific focus areas and transitioning to an “inch wide/mile deep” approach, typically through individual technical assistance.</p>
<p>Disorganized management and response to FI feedback.</p> <p>The process for soliciting and acting on feedback from FIs and from convening partners can sometimes be poorly managed. Even when feedback is collected, the subsequent communication of actions taken based on this input can be neglected. This lack of systematic follow-through can lead to missed opportunities for improvement and reduced FI buy-in, and is sometimes a missed opportunity for building stronger, more collaborative relationships with FIs.</p>	<p>Systematically soliciting, acting, and communicating on feedback from FIs is an easy way to generate buy-in.</p> <p>Consistently soliciting and acting on feedback from FIs will improve climate finance initiatives. Feedback, including when it is not positive, is a valuable opportunity to drive additional buy-in from FIs. Addressing feedback proactively demonstrates a commitment to meeting the needs and expectations of FIs, showing responsiveness and adaptability, and validating FI contributions. Moreover, when changes are made based on feedback, communicating these adjustments back to FI fosters a sense of ownership and partnership.</p>
<p>Missed opportunities in combining group capacity strengthening and individual technical assistance depending on climate topics.</p> <p>Group capacity strengthening and individual TA are often not purposefully combined to fully leverage the strengths of each type of engagement and topic.</p>	<p>Purposefully combine the strengths of group capacity strengthening and individual TA.</p> <p>By leveraging the benefits of both approaches, practitioners can maximize positive outcomes while mitigating potential drawbacks. Group capacity strengthening sessions are often prioritized initially to foster a shared understanding among participants, facilitating the identification of common challenges and potential solutions. Subsequently, individual TA is useful for delving deeper into specific topics, tailoring interventions to address the nuanced needs of each institution. While individual sessions are typically more resource-intensive, they offer the opportunity to explore technically sophisticated or sensitive areas in greater detail. Despite their higher costs, individual engagements are often pivotal for achieving targeted outcomes.</p> <p>After individual TA has concluded, group capacity strengthening events can serve as platforms for consolidating progress, sharing success stories, and galvanizing momentum for sector-level transformation. These events not only celebrate achievements but also can inspire further engagement, particularly among FIs initially hesitant to participate, thereby driving demand for continued capacity strengthening initiatives.</p>

DEEP DIVE: KEY CLIMATE TOPICS FOR CAPACITY STRENGTHENING AND TECHNICAL ASSISTANCE



This section offers a non-exhaustive list of potential topics for climate finance capacity strengthening and TA commonly requested by FIs. These topics will vary based on specific FI needs and the evolving set of incentives that may drive their demand for climate finance best practices.

a. Introduction to climate change and climate finance. A foundational overview of climate change and climate finance concepts, mechanisms, and practical considerations for mobilizing and accessing climate-related funding. This may include an introduction to climate change fundamentals and its environmental/economic impact, how these fit within broader sustainability reporting schemes, and an overview of key climate initiatives, governance frameworks, and disclosure requirements.

b. National and international climate finance policies and regulations. Training on relevant national and international climate finance policies, regulations, and taxonomies.

c. Climate risk management, reporting, and disclosures.

- Implementation of International Financial Reporting Standards (IFRS) requirements for sustainability-related and climate-related disclosures and Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.
- Guidance on incorporating physical and transition climate risks into risk management frameworks and disclosures.
- How to conduct scenario analysis and stress testing for climate-related risks.

d. GHG accounting and emissions measurement.

- Training on methodologies for GHG accounting.
- Guidance on setting science-based emissions reduction targets, ideally aligned with national goals, such as NDCs and National Action Plans.
- Developing and implementing decarbonization strategies and transition plans.

e. Design and commercialization of green loans.

- Green loan criteria: Understanding the criteria for green loans and the types of projects that may qualify aligned with relevant taxonomies.
- Assessment techniques: Techniques for assessing the environmental impact and sustainability of loan applications.
- Customer engagement: Strategies for FIs to engage and educate customers about the benefits and requirements of green loans.
- Monitoring and reporting: Processes for monitoring the performance of green loans and reporting on their environmental and social impact.

STEP 4B: CLIMATE FINANCE TOOL DESIGN AND INTEGRATION IN FIS



DESCRIPTION

Step 4b involves working with FIs to design climate finance tools and to encourage their integration in FI operations.⁶ It is one of the potential pathways to be identified under Step 3. The key outputs for this step follow: a) a climate finance tool developed to assist FIs in adopting climate finance best practices (for example, to support measurement, reporting, and mitigation of climate-related risks and financed GHG emissions by FIs); and b) facilitation support delivered to integrate these tools into the FI's operations.



Based on the Colombia activity, the estimated time to execute Step 4b is 2 months. This estimate is highly contingent on the tool's complexity and iterations involved in arriving to a final product. The proposed activities for Step 4b include the following:

a. Establish tool objectives, thematic focus, and important technical requirements.

- Define the objectives and thematic focus of the tool, for example, measuring financed emissions, assessing climate-related risks, or supporting other climate-related financial disclosures.
- Determine the tool's scope, including asset classes, sectors, and geographic regions to be covered.
- Determine key technical requirements to be built into the tool, such as modularity, and security.

Critical Technical Requirements for a Tool

The choice of technical requirements for a tool will often present various trade-offs, including development costs, tool complexity, timeline, and potential for personalization and updates. There are two critical technical requirements in climate finance tool development that are typically non-negotiable:

- Security is paramount to safeguard sensitive data and maintain trust among users, emphasizing the importance of robust encryption protocols, access controls, and data protection measures throughout the tool's lifecycle.
- A modular tool designed to allow for quick integration and customization within a broad range of FI systems (as compared with integrated tools that need to be tightly interconnected with other tools in a FI system and can't be easily incorporated in a FI system). This enhances the tool's adaptability and interoperability, allowing for integration with various FI systems without disrupting operations, and ensuring broad adoption among staff members, from basic to power users. Additionally, the tool should be able to connect with external databases to extract relevant data.

b. **Develop the tool's methodological approach.** Depending on its expected outputs, every tool will need a methodology for measuring climate risks or financed GHG emissions (for example, a methodology for

⁶ This second activity would be part of an individual TA package but is included under Step 4b for easier reading.

scenario analysis under 1.5°C, 2°C, and 4°C warming scenarios or portfolio risk scoring based on FI exposure to climate risks). This will include:

- Establishing clear guidelines, principles, and calculation methods for different asset classes, sectors, and risk types (physical and transition risks). For example, this may include aligning with the GHG Protocol and Science Based Targets initiative (SBTi).
- Ensuring alignment with relevant national and international regulations and taxonomies.

c. Agree on technical approach for the development of the tool. Based on objectives, scope, and technical requirements (under a) and the proposed methodological approach (under b), agree on a technical approach to develop the tool.

Technical Approaches for Tool Development

There are many different technical approaches to develop a tool and making a choice should always follow consultations with technical experts and FIs. Although a full overview of all approaches is beyond the scope of this report, some examples follow:

- **Modifying an existing tool.** This is a relatively quick and cost-efficient option that leverages a tried-and-tested tool. There often are limitations to personalization and flexibility allowed by an existing tool, and periodic maintenance may be challenging due to intellectual property constraints. This means that the tool selected to be adapted needs to already fit well with FI needs.
- **Developing a new tool using open-source methodologies.** While this allows for complete customization, it comes with higher costs, longer timelines, and increased uncertainty regarding the final product. Managing FI expectations becomes crucial in this scenario, requiring clear communication throughout the development process. Moreover, tool updates may require specialized support, adding to ongoing maintenance challenges.
- **Purchasing existing cloud-based tools and relevant data.** This option simplifies tool updating. It typically involves a subscription and includes ongoing third-party user support, but it is often the most limited in terms of customization potential and will require continuous payments.

d. Engage relevant internal and external stakeholders and technical experts for their advice on the design of the tool. Throughout the full tool design, development, and implementation process, engage a broad range of partners to ensure that the tool meets the need of the FI, is technically sound, and may be adopted by other individual FIs, if needed.

- Identify FI team counterparts to lead and supervise the tool development, piloting, and implementation.
- Engage third-party stakeholders, including FI industry associations, regulators, or supervisory entities (such as central banks or relevant ministries) and climate experts (such as climate risk experts with a track record in working with FIs) for their advice and feedback on the tool.

e. Pilot testing and refinement.

- Build a minimum viable product (MVP) of the tool that is basic and functional, and which can deliver core value to FIs by focusing on its most essential features and a reduced scope in terms of asset classes, sectors, and/or risk types.
- Conduct pilot testing of the tool with FIs to identify potential challenges, data gaps, and areas for improvement and receive feedback. Consult with external stakeholders to receive additional feedback on the MVP.
- Refine the tool's methodological approach based on this feedback and expand the tool to meet its originally defined scope.



- Develop user manuals, case studies, examples, and other training materials to support the tool's implementation and adoption.
- Provide training to the FI teams responsible for implementing and maintaining the tool, addressing key challenges for its implementation such as data collection and reporting and potential future upgrades.

f. Launch the tool internally.

- Launch the tool internally within the participating FIs through a structured rollout plan, including communication, training, and support mechanisms.
- Publicly assign tool ownership to a specific FI team (and ideally individuals within that team), including responsibilities for maintenance and upgrading, and training other users.
- Manage relationships with FIs that already have existing tools and may be resistant to supporting the new tool as a viable alternative. Highlight the benefits and unique features of the new tool and explore opportunities for integration or collaboration with other existing tools.

g. Technical assistance to encourage long-term integration of the tool into FI operations (more details in the Deep Dive Section below).

- Integrate the tool into existing systems and processes. This may include updating processes to ensure that tool outputs are used for internal and external reporting documentation and risk management.
- Establish budgetary responsibility to make sure the tool is well-maintained and upgraded when necessary.
- Seek to utilize tool outputs as a baseline for future FI climate targets.
- Launch the tool publicly to support broad sector adoption and encourage ongoing demand.

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>Lack of available, easy-to-access, high-quality data.</p> <p>A challenge in designing climate finance tools is the (often implicit) assumption of readily available, high-quality local data to feed into the tool. The reality often falls short of these expectations, presenting significant hurdles to effective tool implementation.</p>	<p>Design tools with an understanding of the data available for it.</p> <p>Designing effective climate finance tools requires a thorough understanding of available data sources and realistic expectations about their quality and accessibility. Prior to tool development, assess which data can be utilized and to carefully manage FI expectations. FIs often require support not only in tool development but also in identifying additional climate-related data sources and manipulating data so that it can be used by the tool. This includes addressing challenges such as incomplete or unreliable borrower data or identifying other available databases locally, which may require support to improve quality and usability (more detail on public data repositories in Chapter 2). Where local data is lacking, FIs may need to rely on international proxies to feed their tools.</p>
<p>Conflict between proposed new tools and existing tools from leading FIs.</p> <p>One potential challenge in developing a tool for climate finance that may be shared among FIs is the risk of alienating leading FIs that have already invested in and developed their own tools. Simply offering a new tool without</p>	<p>Minimize potential negative impact of new tool on FIs with existing tools.</p> <p>While a common tool can promote standardization and increase reporting capabilities across various institutions, it may inadvertently put at a disadvantage FIs that have invested in proprietary systems. To address this, seek compatibility between existing tools and new tools, preventing those leading FIs from having to make choice between tools. Consider offering complementary support to these FIs, with options for improving their existing tool or aligning it with the new tool.</p>

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>considering their investments and efforts may result in frustration and resistance.</p>	
<p>Delayed consideration of technical expertise and budgets needed for proper maintenance and updates.</p> <p>Sometimes, TA focuses solely on initial tool deployment and usage, overlooking the ongoing technical requirements and funding needs for maintenance and updates.</p>	<p>Propose ongoing TA and budget for tool maintenance and updates.</p> <p>TA needs to encompass not only tool usage but also the technical skills (and budget commitment) required for long-term maintenance and updates. The tool’s support needs to be tailored to the skillset of the teams responsible for using, maintaining, and updating the tool, including determining the available budget to manage the new tool. Additionally, identifying expert third parties capable of providing further technical assistance or expert maintenance and upgrade solutions can enhance the effectiveness and sustainability of the tools deployed.</p>
<p>Limited integration between the tool and FI existing business practices.</p> <p>At times engagements may wrap-up immediately after the development of a tool without clarity on how the tool will be integrated into the FI business practices. This lack of clarity can lead to underutilization of the tool and hinder its potential to influence decision-making and governance processes effectively.</p>	<p>Articulate how a climate finance tool will be used for decision-making and governance.</p> <p>For each tool an FI is interested in adopting, map out how the tool will be utilized for decision-making and governance (for example, to report against existing climate targets, see Step 5). To be useful, the ownership of the tool must be clearly defined, ideally with a specific team or individual responsible for its use and maintenance. Also, seek to establish practices that incorporate the tool into the company’s management of climate-related risks (such as loan approval, pricing decisions, provisioning policies, regulatory compliance, and informing strategic targets and budgets). Additionally, establishing internal processes for feedback and continuous improvement ensures that the tool remains relevant and effective over time, aligning with evolving organizational needs.</p>
<p>Risk of tool obsolescence.</p> <p>Often FIs do not have a plan to update tools to meet their changing needs and standards. This lack of foresight can lead to stagnation and eventual tool obsolescence, undermining its effectiveness in supporting integration of climate finance best practices. Additionally, limited resources and competing priorities may slow down an FI’s ability to allocate time and funding for regular tool upgrades, risking its long-term utility and value.</p>	<p>Plan for future tool upgrades.</p> <p>One of the final activities for tool development should ideally include the development of a plan for tool upgrades to try to sustain positive momentum after the engagement is finished and prevent the tool from becoming obsolete as the needs of the FI change. This plan can include both operational and technical upgrades aimed at enhancing the tool’s functionality and usability. Operational upgrades may involve broadening the scope of the tool to include additional asset classes or expanding its coverage of climate-related risks to provide a more comprehensive assessment. Technical upgrades may focus on improving user experience by streamlining interface design, simplifying report generation processes, and facilitating access from various teams within the institution.</p>
<p>Using final wrap-up events only as a celebratory milestone.</p> <p>Some tool development initiatives often conclude with final events that serve mostly as celebratory milestones, failing to capitalize on the opportunity to showcase tool outputs, secure institutional support, and encourage additional climate commitments. This lack of purposeful follow-through can result in missed opportunities to maximize the impact and ensure the long-term integration and effectiveness of the tools within the financial sector.</p>	<p>Use group capacity strengthening and public events to further galvanize momentum for adoption.</p> <p>When wrapping up tool development, it is sometimes useful to use group capacity strengthening sessions and public events to celebrate the conclusion of the engagement and generate broader momentum by serving as platforms to showcase the outputs and capabilities of developed tools, stimulating additional demand from other FIs, and galvanizing institutional backing and endorsement, ideally from regulatory bodies and other key stakeholders in the enabling environment (see Chapter 2). By demonstrating the effectiveness and value of the tools in a public setting, these events can encourage broader adoption and public commitments to climate finance targets (see Step 5), further advancing the agenda for sustainable development.</p>



DEEP DIVE: CLIMATE RISK TOOL INTEGRATION

After launching the tool internally, there are several potential activities to support its integration into FIs, including the following:

a. Integrate tools into existing systems and processes across relevant teams (such as credit risk and lending operations)

- Update relevant policies and processes to incorporate tool outputs, for example, integrate tool outputs in the FI's risk management policies.
- Include tool outputs into internal and external reporting documentation aligned with relevant disclosure frameworks and standards and compliant with any regulatory requirements.
- Provide training for trainers to ensure continued adoption and utilization of the tool across the FI, and advanced training for troubleshooting, maintenance, and upgrades.
- Identify expert consultants who can support the FI's in-house technical experts in resolving more technically complex challenges.
- Establish data governance and quality assurance mechanisms to collect, aggregate, and validate available data and ensure reliable outputs.

b. Establish processes and budgetary responsibility for ongoing tool maintenance and upgrading.

- Recommend a periodic process to review tool assumptions, outputs, and methodologies, and to evaluate the tool's effectiveness in meeting its objectives and scope.
- Suggest that a team takes budgetary responsibility to maintain and update the tool.
- Propose processes to expand the tool to other FI activities including new asset classes, sectors, or methodological advancements, and to adjust to exogenous changes including, new data, scientific developments, regulatory changes, and evolving climate finance best practices.

c. Management and governance.

- Where possible, leverage the tool to encourage FIs to commit to climate targets or report against existing climate targets (see Step 5).
- Use the tools to help communicate internally and externally the FI's climate finance strategies, actions, and progress to stakeholders.
- Use tool outputs to inform FI decision-making and improved governance.
- Define staff and/or team key performance indicators based on tool outputs.

d. Launch tool publicly to support broad sector adoption and encourage ongoing demand.

- Officially launch the tool in a public setting to showcase capabilities, galvanize institutional backing and endorsement, and promote its adoption through regulatory bodies, industry associations, and other key stakeholders in the enabling environment (see Chapter 2).
- Monitor the tool's implementation and adoption across the finance industry, gathering feedback from users and stakeholders.

STEP 5: ENCOURAGE THE ADOPTION OF CLIMATE TARGETS



DESCRIPTION

Step 5 involves collaborating with FIs to support their adoption of climate targets as a key outcome of an engagement pathway. However, the development and adoption of these targets can be a lengthy process, potentially extending beyond the timeline of the proposed FI engagement. As a result, this step may not always achieve the intended output within the expected timeframe. For this reason, the initial SBA activities had limited experience with this step and, thus, this report cannot provide an estimated time implementation.



What are the Characteristics of “Good” Climate Targets at FIs?

High-quality climate targets for FIs should adhere to several key characteristics:

- Credible and aligned with the Paris Agreement, including achieving net-zero emissions by 2050.
- Comprehensive, encompassing the FI’s portfolio climate risk exposure and carbon footprint.
- Incorporate accepted science-based scenarios to set both long-term and intermediate targets.
- Publicly disclosed annually, including external verification.

Targets designed with these characteristics will position FIs for better climate outcomes and support more proactive dialogue with clients on their own climate strategies.

Ideally, these targets should also align with the broader FI’s corporate strategy, including any existing sustainability strategies. They should be integrated with relevant existing targets and, where possible, disaggregated across key sectors and geographies where carbon footprint or exposure to climate-related risks is particularly severe. Targets should also incorporate strategies that enable a just transition alongside climate goals, especially for vulnerable communities.

In spite of these constraints, in the final stage in its potential engagement with FIs, USAID can collaborate with FIs to establish the conditions necessary for them to eventually set climate targets. Some activities to consider include the following:

a. Risk management. Enhancing the FI team’s capabilities to measure, analyze, and monitor exposure to climate-related risks and GHG footprints can promote the adoption of climate targets. This may include:

- Upskilling existing staff and hiring specialists in areas such as climate data analysis and emission assessments. This could also be related to the integration of climate finance tools (Step 4b).
- Implementing processes to systematically collect, aggregate, and validate climate-related data, including data governance and quality assurance mechanisms.
- Integrating climate risks and carbon footprint analyses into existing risk management processes to highlight climate issues in risk evaluations, improve resource deployment, and adjust capital adequacy ratios.

- Encouraging the development of a FI climate risk management strategy. Include high-level climate scenario analyses on priority sectors and selected transition/physical risks to inform strategic discussions and potential climate adaptation and mitigation response plans.

b. Finance and reporting. Integrating climate finance best practices can encourage these teams to commit to climate targets. This may include:



- Encouraging the inclusion of FI’s climate risk management outputs in both internal and external reporting. These reports should align with key disclosure frameworks and standards (for example, TCFD) and comply with national reporting requirements (such as green taxonomies).
- Identifying synergies between climate reporting and other ESG or sustainability reporting by the FI and integrate climate reporting into these reports.

c. Corporate management and governance. The integration of climate finance best practices can foster better climate-related management and governance in FIs, increased buy-in from senior leadership, and the adoption of FI climate targets. Some activities to support this effort are to:

- Propose processes for senior management (and potentially board members) to utilize climate risk analysis and reporting for governance and decision-making. This ensures that climate risks and opportunities are addressed at the highest organizational levels.
- Use internal and external climate reporting to communicate the FI’s climate finance strategies, actions, and progress to internal and external stakeholders.
- Integrate and align climate finance best practices with broader ESG and sustainability strategies.
- Define staff and/or team key performance indicators based on climate targets as measured by internal climate analyses.

d. Collaboration. Fostering closer collaboration between FIs and key external stakeholders in the enabling environment (see more details in Chapter 2) can also encourage the adoption of climate targets. For example:

- Collaborate with the public sector to improve data access to existing climate data sources and engage stakeholders in the enabling environment if data repositories need to be upgraded.
- Participate in industry initiatives and FI associations that can share best practices on adopting and reporting climate targets and encourage FIs to participate in collaborative efforts across the industry.
- Coordinate with FI regulators and supervisors (such as central banks and key ministries) to align on current and expected climate finance disclosures and standards, and to identify bottlenecks in the FI for their implementation.

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>FIs are often unwilling to commit to adopting climate targets as part of a potential engagement.</p> <p>This reluctance stems from several factors, including hesitation to embark in a conversation on strategic targets with an external stakeholder, concerns about the value added by these targets, regulatory</p>	<p>Focus on creating the right conditions for future climate target adoption.</p> <p>Overcoming FI concerns to adopt climate targets requires significant time, effort, and social capital. In many cases it may extend beyond the timeline of a given engagement. This timeline can be accelerated if there is strong pressure from regulators or shareholders to commit to specific climate targets. Alternatively, activities to support eventual climate target setting can focus on creating the right conditions for later adoption by:</p>

 GAPS/CHALLENGES	 LESSONS LEARNED
<p>uncertainty, and the complexity and lack of expertise in developing and integrating climate targets within the FI.</p>	<ul style="list-style-type: none"> • Strategically upgrading capabilities of the teams most involved with setting corporate targets. • Aligning climate targets with other relevant target-setting initiatives within the FI, especially existing or upcoming sustainability targets.

CHAPTER 2: THE ROLE OF THE ENABLING ENVIRONMENT TO SUPPORT THE INTEGRATION OF BEST PRACTICES



DESCRIPTION

The enabling environment for climate finance refers to the policies, regulations, institutions, and frameworks that facilitate and encourage the integration of climate finance best practices in FIs. While a detailed overview of potential activities to support the enabling environment in advancing climate finance is beyond the scope of this report, it is often crucial to strategically engage with key non-FI public and private stakeholders to increase the chances of FI buy-in and achieve long-term impact in the financial sector, including broader financial systems change.



Steps 1 to 5 above include multiple proposed activities to strategically utilize the enabling environment to encourage FIs to integrate climate finance best practices (such as by leveraging their networks to engage and convene FIs or their financial know-how to help co-create engagement pathways with FIs). The best suited stakeholders for executing these activities will be context-specific and depend on the set up of the financial system, including the stakeholder's formal regulatory or supervisory role (such as central banks or ministries of finance), FI convening power (such as associations), or ability to facilitate transactions (such as public insurance providers). These stakeholders can be mapped out and grouped by building on a modified Five-Point Framework originally developed by USAID's Office of Private Capital and Microenterprise to explore the constraints impeding finance and hindering investment in developing countries.⁷



In addition to the activities proposed in Steps 1 through 5, complementary engagements can also help develop the enabling environment to better promote the integration of climate finance best practices. These non-FI engagements will be context specific. They depend on FI opportunities for value addition (see Step 2) and on the availability of key stakeholders open to collaborating on the proposed activities. Some potential activities with these enabling stakeholders may include (but are not limited to) the following:

- Promoting a common baseline of key climate finance practices and policies across FIs, ensuring adherence to relevant national and international climate standards.
- Improving stakeholders' institutional capacity to approve and enforce climate finance regulations and reporting from FIs through improved supervision and advisory capabilities.
- Developing or enforcing green taxonomies and other guidelines to standardize the identification of FI assets contributing to emissions reductions and climate adaptation.
- Creating or strengthening convening platforms for FIs and other critical stakeholders to coordinate broader climate finance activities and provide a common repository of relevant FI tools.
- Developing or upgrading robust publicly available systems for collecting, analyzing, and disseminating climate data to aid FIs in pricing and supervising climate transactions.

⁷ "Mobilizing Private Finance for Development: A Comprehensive Introduction", page 22 https://2017-2020.usaid.gov/sites/default/files/documents/1865/MFD_Comprehensive_Introduction.pdf

- Exploring fiscal, policy, and regulatory incentives to make climate-friendly investments more attractive to FIs, such as tax incentives, streamlined permits, public concessionary co-investing, and risk-sharing public-private partnerships.
- Stimulating a pipeline of bankable climate projects that can attract FI financing.
- Leveraging stakeholder networks and social capital with FIs to increase buy-in for USAID activities and ensure proposed activities meet FI demands.

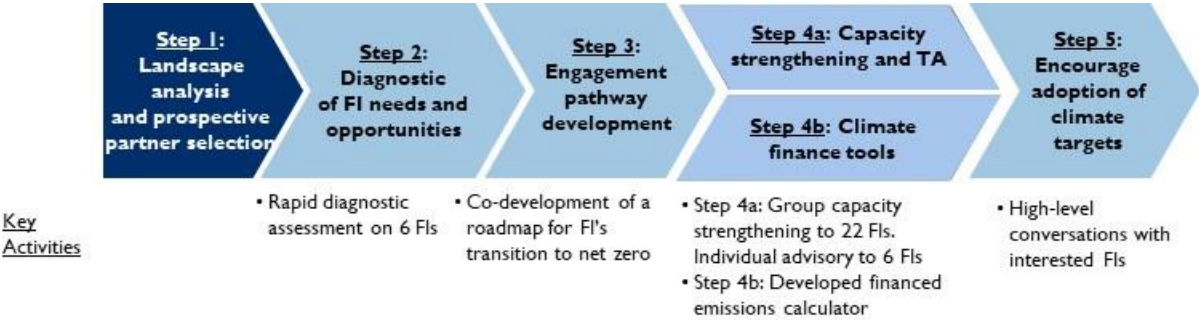
 GAPS/CHALLENGES	 LESSONS LEARNED
<p>Limited data is a key constraint to FIs.</p> <p>As mentioned in Step 4b, limited data is a significant bottleneck to the adoption of climate finance best practices by FIs, especially in terms of tool integration. This includes limited data on potential exposure to climate-related risks and financed GHG emissions across key sectors and geographies.</p>	<p>Develop or upgrade national climate data repositories.</p> <p>FIs may benefit from having access to national sources of climate-related data to assess risks and opportunities, inform target setting, facilitate regulatory compliance, and conduct stress tests adjusted to regional climate-related risk. Public agencies are often better positioned to aggregate and manage public data repositories that can be shared with FIs, supporting the integration of climate finance best practices. Some initiatives to consider for developing or upgrading national climate data repositories include:</p> <ul style="list-style-type: none"> ● Improving data quality in the repository, including the level of detail and frequency of data uploads. ● Upgrading technical platforms or software to make the data platform more user-friendly. ● Simplifying the processes for inputting and extracting data from the repository and improve its interoperability with FI systems. ● Aligning the repository architecture with relevant third-party taxonomies and standards, including any national green taxonomy.
<p>Enabling stakeholders may need capacity strengthening and TA.</p> <p>Supporting the integration of climate finance best practices in FIs may require addressing capacity strengthening needs and technical gaps among other stakeholders in the enabling environment to support the development and implementation of climate policies and regulations and support FIs integrate climate finance best practices.</p>	<p>Capacity strengthening and TA should not focus exclusively on FIs.</p> <p>Understanding key players in the enabling environment (ideally as part of the diagnostic in Step 2) can help identify enabling environment stakeholders that may require capacity strengthening and TA to maximize the climate impact of engaging with FIs and potentially broader systems change. For example, this may include:</p> <ul style="list-style-type: none"> ● Public civil servants responsible for banking supervision, such as central bank inspectors, and key staff in ministries of economy and finance. These stakeholders often need separate capacity strengthening or TA to catch up with new national climate finance reporting requirements or international standards. ● Finance service firms, including auditors, accountants, and financial advisors who play a significant role in promoting and implementing climate finance best practices within the financial sector.
<p>FI regulators and supervisors may need technical support.</p> <p>FI regulators and supervisors can significantly influence the pace of climate integration within FIs, either accelerating or slowing down progress. They often require TA to effectively support FIs in adopting climate finance best practices.</p>	<p>Use targeted TA for FI regulators/supervisors to accelerate FI integration of climate finance best practices.</p> <p>The diagnostic of FI needs and opportunities (Step 2) can uncover technical bottlenecks within FI regulators and supervisors (such as the central bank or other national financial regulatory authorities). These bottlenecks can hinder FIs in incorporating climate finance best practices and may be resolved with targeted TA. For instance, national climate change scenarios used by FIs to assess exposure to climate-related risks and to conduct climate stress tests are often developed by expert public institutions such as the central bank or expert public agencies. While FIs can develop these</p>

 GAPS/CHALLENGES	 LESSONS LEARNED
	<p>scenarios independently, the process is typically costly and technically complex. Moreover, independently developed scenarios may become obsolete if public sector entities develop them later.</p>
<p>Widespread collaboration among FIs is limited.</p> <p>FIs vary widely in their readiness and willingness to collaborate with each other for the adoption climate finance best practices, often due to competitive tensions and differing priorities. Overcoming these challenges to ensure widespread participation and collaboration may sometimes require support from a third-party stakeholder.</p>	<p>Leverage regulators, FI associations, and initiatives to engage FIs at scale.</p> <p>FI regulators, associations, and industry initiatives (such as the Glasgow Financial Alliance for Net Zero) often possess extensive networks and industry legitimacy, making them influential in promoting the integration of climate finance best practices in the financial sector. These stakeholders can leverage their relationships with FI members to:</p> <ul style="list-style-type: none"> ● Identify FIs interested in adopting climate finance best practices. ● Generate buy-in among FI members for climate initiatives. ● Serve as convenors for aggregated and scalable capacity strengthening and TA among FIs. ● Mitigate competitive tensions and foster collaboration among FIs where necessary. <p>Depending on their level of sophistication, FI associations can also support efforts to establish a common baseline and set goals across the FI industry (see Step 5).</p>
<p>FIs do not engage systematically with climate finance policymakers.</p> <p>As highlighted in Step 2, FIs often do not engage systematically with climate finance policymakers although regulatory and reporting requirements are key incentives for FIs to integrate climate finance into their operations. At the same time, the public sector often lacks expertise in private finance, which can lead to sub-optimal designs of public climate finance incentives.</p>	<p>Build a two-way street between FIs and the public sector to accelerate climate finance integration.</p> <p>To accelerate the integration of climate finance and deepen its impact, FIs can take a proactive role if provided with the right opportunities to engage. Senior leadership in FIs can engage actively with the public sector, providing expertise and insights to inform the design of public climate finance incentives. FI associations, leveraging their position as independent counterparts, can also influence both the public sector and their FI members in adopting best practices, such as implementing common tools for measuring financed GHG emissions.</p>

CHAPTER 3: CASE STUDIES

COLOMBIA CASE STUDY

Through the INVEST initiative, USAID launched the SBA activity in Colombia in collaboration with Colombian banking association Asobancaria to enhance the financial sector’s understanding of climate risk reporting and carbon accounting methodologies, increase green lending capacity, and encourage net-zero target setting. The Colombia SBA activities were led by Dalberg and Guidehouse. The activity started in October 2022 and concluded in December 2023. Most of the activity’s tasks concentrated in Steps 2 to 4, as follows:



Step 1: Landscape analysis. Given the Mission's extensive knowledge and experience with climate finance in the country, it opted to forgo a detailed landscape analysis and instead build on research conducted in previous engagements.

Step 2: Diagnostic of FI needs and opportunities. Duration: 1.5 months (partially overlapping with Step 3). The FI partner selection was conducted collaboratively with Asobancaria, leveraging its relationships and social capital with FIs, and focusing on the five largest FIs in the country and a leading microfinancier. The activity then carried out a rapid diagnostic assessment on these six Colombian FIs to evaluate their progress in measuring and reducing financed GHG emissions. The diagnostic placed FIs in one of four categories—from early stage to more advanced—based on their efforts in reducing financed emissions, strategy development, portfolio of green products and services, and capacity for organizational change.

Step 3: Engagement pathway development. Duration: 0.5 month (partially overlapping with Step 2). Based on the diagnostic assessment, the activity co-developed with the FIs a roadmap to accelerate the FIs’ transition to net zero, including potential areas of improvement.

Step 4a: Capacity strengthening and TA. Duration: 3 months (partially overlapping with Step 4b). The activity provided group capacity strengthening was open to all Asobancaria members and trained 22 FIs. This assistance included an introduction to the path to net-zero; use of a financed emissions tool; setting goals, understanding scenarios and abatement curves, and measuring climate risks; net-zero strategies for portfolio management; and monitoring and reporting on climate-related risks and emissions. After the development of the calculator (see Step 4b, below) the activity also offered individual TA to 6 FIs tailored to the needs identified in the rapid diagnostic and the adoption of the finance emissions calculator.

Step 4b: Climate finance tools. Duration: 2 months (partially overlapping with Step 4a). The diagnostic assessment revealed a common request from many FIs: a tool to measure their financed GHG emissions. In response, the activity developed a Calculadora NetZero, a financed emissions tool which was incorporated by four FIs during the activity’s timeline and is available to all 38 Asobancaria member

FIs. This tool was created using the best-in-class standards from the global Partnership for Carbon Accounting Financials, was aligned with the SBTi, and was tailored to Colombia's local context. It encompasses the four most significant asset classes for Colombian FIs (project finance, commercial mortgages, residential mortgages, and corporate credit) and allows for varying levels of sector aggregation to facilitate reporting.

Step 5: Encourage adoption of climate targets. Duration: 0.5 months. The financed emissions calculator provides a foundation for FIs to establish an emissions baseline and commit to decarbonization targets. Following launch of the tool, Asobancaria leadership and its members agreed to include financed emissions data in their annual reporting and committed to working together to establish sectoral and individual baseline and reduction targets.

Key outputs of the activity include the following:

- Step 2: Rapid diagnostic assessment on six FIs progress to measure and reduce path to net zero.
- Step 3: Roadmap to accelerate transition to net zero to six FIs.
- Step 4a: Group capacity strengthening provided to 22 FIs (80 participants). Individual TA provided to six FIs.
- Step 4b: Development of a financed emissions tool, incorporated by four FIs in their operations.

The **lessons learned** from Colombia's activity have been incorporated to the proposed steps above. Some of the most relevant lessons were the following:

- **Gaining buy-in from FIs is critical.** Many Colombian FIs are already well-advanced in integrating climate finance best practices, often in coordination with other donor-funded initiatives. To effectively engage these banks, the SBA activity required a significant time investment to develop relationships with these FIs. While more advanced institutions often showed less interest in direct participation, their endorsement of the initiative added credibility and encouraged broader sector-level support. To counter potential resistance, the diagnostic assessment (Step 2) focused on understanding the factors that might hinder collaboration for the adoption of new processes within individual institutions, in addition to identifying incentives for change.
- **Design tools with an understanding of the available data.** Most Colombian FIs lacked access to national data for the financed emissions tool. FIs require support not only in tool development but also to identify additional sources of climate-related data. The SBA activity addressed this need by incorporating the identification of relevant data as part of the tool development process. Many FIs will need to rely on international data proxies to estimate their exposure to climate risks and their potential financial impacts until high-quality local data becomes available.
- **Leverage FI business association networks and credibility.** The SBA activity collaborated closely with one key stakeholder in Colombia's enabling environment—Colombia's banking association, Asobancaria—to leverage its extensive network and credibility within the financial sector. With Asobancaria's support, the SBA activity identified and connected with FIs interested in integrating climate finance best practices and was able to deliver capacity strengthening at scale. Asobancaria will also continue to build on the engagement's outputs by collaborating with FI senior management on feasible strategies for reducing financed GHG emissions and, where possible, secure commitments to establish both individual and sectoral carbon reduction targets. Additionally, it will support efforts to develop an industry baseline, facilitate country-level reporting, and set climate-related goals.

EGYPT CASE STUDY

USAID launched the SBA activity in Egypt under its Business Egypt Activity. For this SBA activity, Business Egypt is partnering with the Egyptian Banking Institute (EBI), the Central Bank of Egypt’s training arm, to develop a climate finance training program for its member banks, including group capacity strengthening and individual TA. In November 2022, the Central Bank of Egypt published a Sustainability Circular⁸ that established guiding principles for banks to develop general frameworks for climate finance. At that point, Business Egypt conducted a landscape analysis and diagnostic of FI needs and opportunities that led to the design of an SBA activity to support the implementation of the Sustainability Circular and encourage Egyptian banks to integrate climate finance best practices. The SBA activity kicked off in March 2023 and is expected to conclude by the end of 2024.

Most of Business Egypt’s activities have concentrated on Steps 1 and 2 (landscape analysis and diagnostic of FI needs and opportunities) leading to Step 4a (group capacity strengthening). Current activities are focused on Steps 3 (developing an engagement pathway with FIs) and 4a (additional individual TA).



Steps 1 and 2: Landscape analysis and diagnostic of FI needs and opportunities. Duration: 1 month. Following the Central Bank’s issuance of its Sustainability Circular, Business Egypt conducted a landscape analysis and held consultations with EBI and five large FIs in November 2022 to identify gaps and needs in the adoption of climate finance best practices. Based on these consultations, Business Egypt developed a roadmap outlining options to support banks in integrating these best practices, in close collaboration with EBI, which led to the launch of the SBA activity.

Step 3: Engagement pathway development. The SBA activity initially opted to forgo designing individual engagement pathways with FIs. Instead, it chose to collaborate with EBI to develop a group capacity strengthening and training curriculum, informed by EBI’s understanding of the needs of banks under the Central Bank’s supervision.

Step 4a: Capacity strengthening and TA. Duration: Group capacity strengthening sessions were spaced out over a one-year period. The SBA activity provided group capacity strengthening sessions to 25 banks selected jointly with EBI. The training included a comprehensive overview of climate finance topics, including an introduction to climate change; an overview of climate change risks (both physical and transition risks); methods for identifying, evaluating, and using material risks to inform management strategies; and strategies for addressing physical and transition risks by identifying opportunities and designing products for financing climate mitigation and adaptation. Based on participant feedback, another more technical capacity strengthening session was introduced that focused on climate risk management. This session covered the methodological approaches and potential indicators for estimating physical risks, transition risks and financed emissions, and the identification of opportunities in green and transition finance. Currently, the activity is designing individual TA with seven banks, tailored

⁸ The Sustainability Circular can be accessed here: <https://www.cbe.org.eg/en/sustainability/principles-and-regulatory-framework>

to address their specific technical needs, and exploring activities to support their adoption of climate targets.

Key outputs of the activity so far include the following:

- Steps 1–2: Report on FI consultations and potential climate finance activities for engagement.
- Step 3: The engagement pathways are currently being designed, so no output has been agreed with the FI.
- Step 4a: Group capacity strengthening provided to 28 FIs.

The **lessons learned** from Egypt’s activity have been incorporated to the proposed steps above. Some of the most relevant lessons were the following:

- **Identify needs from the central bank to engage FIs.** In Egypt, regulatory and reporting incentives are the most critical drivers for encouraging FIs to integrate climate finance into their operations. Upon the publishing of the Sustainability Circular, the Egyptian Central Bank adopted a collaborative approach to engage FIs and gather their feedback on potential climate regulations to accelerate this transition and deepen its impact. The Central Bank’s training arm, the EBI, has extended this collaborative effort by actively engaging with the most influential national banks to identify and address the financial sector’s capacity strengthening and technical needs. The SBA activity under Business Egypt identified this need and leveraged it to advance group training initiatives for the integration of climate finance best practices in partnership with EBI.
- **Corporate sustainability teams are a key counterpart in many FIs.** In recent years, FIs in Egypt have begun reporting on their sustainability efforts through specialized corporate sustainability teams. Following the Central Bank’s 2022 request for FIs to report on GHG emissions from corporate facilities, many institutions opted to enhance the capacity of their sustainability teams to assess and mitigate the carbon footprint of their operations. As a result, corporate sustainability teams in Egypt have grown to play an increasingly pivotal role in integrating climate finance best practices and driving FIs’ progress in climate finance. They have become an optimal entry point for USAID engagement to collaborate with many FIs and have added value.
- **Balance group and individual capacity strengthening.** Initially, EBI promoted group capacity strengthening sessions to foster a shared understanding of key climate finance concepts across a broad range of topics. This collective understanding has been instrumental in aligning practices and goals across FIs and enhancing sector-wide collaboration. However, meeting the needs of a diverse audience with varying levels of knowledge and expertise has proven challenging beyond the original foundational curriculum. Building on the trust established through group training, the SBA activity is now transitioning to individual TA, with a deeper focus on a narrower set of topics tailored to the specific needs of each FI. This approach also presents opportunities to facilitate the deeper integration of climate finance best practices and the adoption of climate targets within these institutions.

ANNEX I: ADDITIONAL REFERENCES TO DIG DEEPER

For additional information on key steps outlined in this Guide, please refer to the following sources:

STEP I: LANDSCAPE ANALYSIS AND FI PARTNER SELECTION

USAID REFERENCES

- “Identifying Local Actors: Partner Landscapes - How-To Guide for Conducting a Partner Landscape” https://www.usaid.gov/sites/default/files/2023-08/USAID_NPI_PartnerRadiusFieldGuide_FINAL.pdf
- “Step 2: Assess Impact of Policy and Regulatory Framework on Climate Adaptation Action” from the “PSE to Advance Climate Adaptation and Resilience -A Guide to Building Effective Partnerships” <https://agrilinks.org/post/private-sector-engagement-advance-climate-adaptation-and-resilience-guide-building-effective>
- “Step 3: Identify Strategic Partners” from the “PSE to Advance Climate Adaptation and Resilience -A Guide to Building Effective Partnerships”
- “Understanding the Context for PSE” and “Understanding the Target Sectors” from the “Reference Guide on Governance and Private Sector Engagement” https://pdf.usaid.gov/pdf_docs/PA00ZB8V.pdf
- “7. Identifying, Assessing, and Managing Risk” from the “USAID Private Sector Engagement Policy” https://www.usaid.gov/sites/default/files/2022-05/usaid_psepolicy_final_0.pdf
- “1. What is the role of private investment in the development challenge I’m trying to address?” and “2. What is holding investors back from helping to address this challenge?” from “Unlocking capital for Development” https://www.usaid.gov/sites/default/files/2022-05/Unlocking_Capital_for_Development_FINAL.pdf

NON-USAID REFERENCES

- “Assessment and diagnostics: Financing landscape”, Integrated National Financing Frameworks <https://inff.org/report/assessment-diagnostics-financing-landscape-report>
- “Part Two: Defining terms, understanding the landscape” from “The SDG Partnership Guidebook Stakeholder Mapping Tool”, the Partnering Initiative <https://thepartneringinitiative.org/knowledge-centre/partnering-guidebooks/sdg-partnership-guidebook/> and <https://www.unepfi.org/themes/climate-change/the-climate-risk-tool-landscape-2022-supplement>
- “Chapter 1: The Partnering Challenge” and “Chapter 2: Building Partnerships” from “The Partnering Toolbook. An essential guide to cross-sector partnering”, International Business Leaders Forum (IBLF) <https://www.undp.org/sites/g/files/zskgke326/files/publications/es/ToolBook-Eng.pdf>

STEP 2: DIAGNOSTIC OF FI NEEDS AND OPPORTUNITIES

USAID REFERENCES:

- “5. Value Propositions: What USAID and the Private Sector Bring When We Work Together How We Engage” from the “USAID Private Sector Engagement Policy” https://www.usaid.gov/sites/default/files/2022-05/usaid_psepolicy_final_0.pdf
- “Step 4: Select Partnership Blueprint” from the “PSE to Advance Climate Adaption and Resilience -A Guide to Building Effective Partnerships” <https://agrilinks.org/post/private-sector-engagement-advance-climate-adaptation-and-resilience-guide-building-effective>
- “Question 3: What Are the Roles and Interests of the Private Sector in Addressing this Challenge?” and “Question 4: Are There Factors Constraining The Private Sector From Involvement And Investment?” from the “PSE Opportunities Tool User Guide” https://www.marketlinks.org/sites/default/files/media/file/2022-05/PSE%20Opportunities%20Tool_%20user%20guide%20Apr%202022.pdf

NON-USAID REFERENCES

- “Assessment and diagnostics: Overview”, Integrated National Financing Frameworks <https://inff.org/report/assessment-diagnostics-financing-landscape-report>
- “How to Implement Stakeholder Mapping into the Programmatic Approach of the Climate Investment Funds”, CIF https://cif.org/sites/cif_enc/files/knowledge-documents/stakeholder_mapping_guideline_revised.pdf

STEP 3: ENGAGEMENT PATHWAY DEVELOPMENT

USAID REFERENCES

- “6. How We Engage” and “8. Putting PSE into Practice” from the “USAID Private Sector Engagement Policy” https://www.usaid.gov/sites/default/files/2022-05/usaid_psepolicy_final_0.pdf
- “Step 5: Design/Co-Create Partnerships” from “PSE to Advance Climate Adaption and Resilience -A Guide to Building Effective Partnerships” <https://agrilinks.org/post/private-sector-engagement-advance-climate-adaptation-and-resilience-guide-building-effective>
- “Question 5: Is There A Role For USAID To Help Alleviate or Eliminate These Constraints?” from the “PSE Opportunities Tool User Guide” https://www.marketlinks.org/sites/default/files/media/file/2022-05/PSE%20Opportunities%20Tool_%20user%20guide%20Apr%202022.pdf
- “3. How can I work with investors to unlock needed investment?” from “Unlocking capital for Development” https://www.usaid.gov/sites/default/files/2022-05/Unlocking_Capital_for_Development_FINAL.pdf

NON-USAID REFERENCES

- “Stakeholder Engagement in Preparing Investment Plans for the Climate Investment Funds Case Studies from Asia”, CIF and ADB

<https://www.adb.org/sites/default/files/publication/30043/stakeholder-engagement-investment-plans-asia.pdf>

- “Toolkits for Policymakers to Green the Financial System”, Toolkit 1 and 5, World Bank <https://documents1.worldbank.org/curated/en/374051622653965991/pdf/Toolkits-for-Policymakers-to-Green-the-Financial-System.pdf>

STEP 4A: CLIMATE FINANCE CAPACITY STRENGTHENING AND TECHNICAL ASSISTANCE

NON-USAID REFERENCES

- “Capacity Development: A UNDP Primer”, UNDP <https://www.undp.org/publications/capacity-development-undp-primer>
- “Private Sector Engagement for Sustainable Development: Lessons from the DAC”, OECD
- UNEP FI Training for Financial Institutions <https://www.unepfi.org/climate-change/training-for-financial-institutions/>

STEP 4B: CLIMATE FINANCE TOOL DESIGN AND INTEGRATION IN FIS

NON-USAID REFERENCES

- “The Climate Risk Tool Landscape: 2022 supplement” UNEP FI <https://www.unepfi.org/themes/climate-change/the-climate-risk-tool-landscape-2022-supplement/>
- “Mainstreaming Climate Action within Financial Institutions. Emerging Practices”, EIB https://www.eib.org/attachments/documents/fi_mainstreaming_epp_en.pdf

STEP 5: ENCOURAGE ADOPTION OF CLIMATE TARGETS

NON-USAID REFERENCES

- “Guidelines for Climate Target Setting for Banks – Version 2” UNEP FI <https://www.unepfi.org/industries/banking/guidelines-for-climate-target-setting-for-banks-version-2/>
- “Practical Guides to a Good Transition” by the climate Safe Lending Network <https://www.climatesafelending.org/good-transition-for-banks>
- “Toolkits for Policymakers to Green the Financial System”, Toolkit 7, World Bank <https://documents1.worldbank.org/curated/en/374051622653965991/pdf/Toolkits-for-Policymakers-to-Green-the-Financial-System.pdf>

CLIMATE FINANCE ENABLING ENVIRONMENT

USAID REFERENCES:

- “Mobilizing Private Finance for Development: A Comprehensive Introduction” https://2017-2020.usaid.gov/sites/default/files/documents/1865/MFD_Comprehensive_Introduction.pdf

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