

EDFI Statement on Climate and Energy Finance

EDFI is the Association of European Development Finance Institutions, a group of 15 publicly-backed institutions that provide financing and advice to private sector enterprises in countries where the need is greatest, while upholding high standards for the responsible financing of sustainable development, impact management, and transparency.

As EDFI member institutions (“EDFIs”), we wish to set out our joint ambitions on climate and energy related finance. A significant and progressive alignment of private capital flows to developing countries will be required to reach the Sustainable Development Goals by 2030 and to implement the Paris Agreement. Over the past five years, EDFIs have committed €8 billion to climate finance in low- and middle-income countries. Now, in the lead-up to COP 26, and as countries around the world strive to achieve a sustainable recovery from the COVID-19 pandemic, it is more important than ever that EDFIs set a collective example for investors in developing markets.

Accordingly, we make the following commitments as individual institutions:

- 1. EDFIs will align all new financing with the objectives of the Paris Agreement by 2022 and will transition our investment portfolios to net-zero GHG emissions by 2050 at the latest.**
- 2. EDFIs will exclude new coal and fuel oil financing, and will limit other fossil fuel financing to Paris-aligned projects until generally excluding them by 2030 at the latest.**
- 3. EDFIs will build on our track record in climate finance and the mobilisation of private sector finance by holding ourselves to ambitious individual targets and by reporting publicly on our progress.**
- 4. EDFIs will invest strategically and provide assistance to our clients to support the development of Paris-aligned projects, and to promote green growth, climate adaptation and resilience, nature-based solutions, access to green energy, and a just transition to a low-carbon economy.**
- 5. EDFIs will make climate related financial disclosures in line with high international standards, specifically adopting the recommendations of the Task Force on Climate-related Financial Disclosures.**
- 6. EDFIs will embed climate action and climate risk management at every level of our institutions.**

These commitments are further described in the technical specifications included as Annex 1. EDFIs are diverse institutions that will follow different paths in using their best efforts to implement these commitments, with some institutions going even further in certain areas, and others needing more time for implementation. By working together, EDFIs will deliver even greater support for the Sustainable Development Goals through projects that are aligned with the Paris Agreement and take full account of their effects on the planet, while striving to reduce GHG emissions without compromising on our development impact.

Annex 1

Technical Specifications to EDFI Statement on Climate and Energy Finance

This document outlines the technical specifications that will underpin EDFIs' commitments on Climate and Energy Finance. We define climate and energy related finance to include financing addressing energy supply, energy efficiency, transportation, and nature-based solutions, as well as other financing that supports our clients in developing countries with climate mitigation, resilience, and adaptation. The goal of our collaboration is to adopt a harmonised approach based on international best practices and ambitious operational strategies with the aim of maximising our impact while redirecting and mobilising additional private capital, working with global leaders to implement policy reforms that promote investment readiness in the countries where we operate, and delivering climate and energy finance that will contribute to achieving the global climate goals set out in the Paris Agreement. We will meet our commitments while also adhering to the EDFI Principles for Responsible Financing of Sustainable Development, which outline our high standards of responsible financing, impact management and transparency.

As European organisations, we also welcome the adoption of the Taxonomy Regulation, which establishes a legal basis for the EU taxonomy and an environmental framework similar to that already in use by EDFI members. EDFI is pleased to be working with the International Platform for Sustainable Finance and to be engaged with European Institutions, EU Member States and partner countries in ensuring that the EU taxonomy is successfully adapted for use in the developing countries where we operate.

Our commitments are re-stated below and followed by technical specifications of how we, as individual EDFI member institutions, intend to achieve our collective ambitions.

1. EDFIs will align all new financing with the objectives of the Paris Agreement by 2022 and will transition our investment portfolios to net-zero GHG emissions by 2050 at the latest.

- EDFIs will, at the project level, adopt harmonised methodologies and approaches to ensure that each new financing is aligned with the objectives of the Paris Agreement (hereafter, "Paris-aligned") and consistent with the decarbonisation trajectory of the relevant sector or country no later than 2022, and will disclose the nature of such methodologies.
- EDFIs will, at the portfolio level, adopt approaches that will gradually decrease aggregated GHG emissions to net zero by 2050 at the latest.

2. EDFIs will exclude new coal and fuel oil financing, and will limit other fossil fuel financing to Paris-aligned projects until generally excluding them by 2030 at the latest.

- EDFIs will exclude new fossil fuel financing, directly or indirectly through new commitments to investment funds and dedicated lending¹ via financial institutions, in (i) coal prospection, exploration, mining or processing; (ii) oil exploration or production; (iii) standalone fossil gas exploration and/or production²; (iv) transport and related infrastructure primarily³ used for coal for power generation; (v) crude oil pipelines; (vi) oil refineries; (vii) construction of new or refurbishment of any existing coal-fired power plant (including dual); (viii) construction of new or refurbishment of any existing HFO-only or diesel-only power plant⁴ producing energy for the public grid and leading to an increase of absolute GHG emissions⁵; or (ix) any business with planned expansion of captive coal used for power and/or heat generation⁶.
- EDFIs will restrict new fossil fuel financing that is not excluded by the foregoing paragraph (e.g. gas-fired power plants) by (i) limiting these to projects that are Paris-aligned, (ii) progressively adopting further restrictions, and (iii) generally excluding them by 2030 at the latest. Any subsequent new financing, in exceptional cases, will be clearly justified, specified, and publicly disclosed.

3. EDFIs will build on our track record in climate finance and the mobilisation of private sector finance by holding ourselves to ambitious individual targets and by reporting publicly on our progress.

- EDFIs will continue to direct a significant portion of own account financing, and to mobilise private co-finance, towards climate-related investments by (i) setting targets for our institutions, where they do not already exist, by 2022, and (ii) reporting regularly on progress in respect of these targets.

4. EDFIs will invest strategically and provide assistance to our clients to support the development of Paris-aligned projects, and to promote green growth, climate adaptation and resilience, nature-based solutions, access to green energy, and a just transition to a low-carbon economy.

- EDFIs will continue to develop new ways of working with and supporting our clients and co-investors, including through technical assistance and qualified guidance, to promote the improvement of their environmental practices and alignment with the Paris Agreement.
- EDFIs will use our experience and develop practical guidance and initiatives for increasing financing for adaptation and resilience to climate change, particularly to reduce vulnerabilities of communities and natural ecosystems to climate impacts.
- EDFIs will use our experience and develop practical guidance and initiatives for aligning climate and energy financing with the need for a just transition of the workforce to a low-carbon economy.
- EDFIs will develop joint strategies and mandates, such as ElectriFI, to increase the share of climate and energy financing that goes to providing reliable, affordable, and low-carbon energy access for all.

5. EDFIs will make climate related financial disclosures in line with high international standards, specifically adopting the recommendations of the Task Force on Climate-related Financial Disclosures.

- EDFIs will adopt, and make disclosures consistent with, the [recommendations of the Task Force on Climate-related Financial Disclosures](#) (“TCFD”).
- EDFIs will track and report climate finance activities – including both mitigation and adaptation finance - using internationally harmonised climate finance definitions for both own account financing and private co-finance mobilisation.⁷
- EDFIs will measure, and participate in joint EDFI reporting of, GHG emissions reductions from mitigation projects using internationally harmonised methodologies⁸ and support the necessary development and timely adoption of harmonised methodologies for estimating and tracking GHG emissions.

6. EDFIs will embed climate action and climate risk management at every level of our institutions.

- EDFIs will adapt our internal decision-making processes and organisational incentives to take account of physical and transition risks from climate change, and to embed climate action at every level of our institutions.

EDFIs will report publicly on our progress in respect of these commitments. We will also review the commitments (e.g. progressive restrictions on new fossil fuel financing not already excluded) once every three years to ensure that they remain consistent with the latest climate science and technology, progress towards the Sustainable Development Goals, and our ambition to set an example of responsible financing for other investors.

Responsibly managed private sector enterprises, supported by EDFI members, will play a vital role in moving the world towards the achievement of the Sustainable Development Goals by 2030 and a sustainable recovery from the COVID-19 crisis: they create jobs, boost sustainable growth, and fight poverty and climate change. The above commitments represent our determination to work collectively to support businesses in the developing world in a way that recognises the centrality of the climate to all we do.

Notes

- ¹ “Dedicated lending” is defined for these purposes as loans conditioned by a use of funds clause specifying that such financing will be used for one or more of the purposes described.
- ² Gas extraction from limnically active lakes is excepted from this exclusion.
- ³ “Primarily” means more than 50% of the infrastructure’s handled tonnage.
- ⁴ For indirect equity through investment funds, investments (up to a maximum of 20% of the fund) in new or existing HFO-only or diesel-only power plants are allowed in countries that face challenges in terms of access to energy and under the condition that there is no economically and technically viable gas or renewable energy alternative.
- ⁵ i.e. where energy efficiency measures do not compensate for any capacity or load factor increase.
- ⁶ This does not apply to coal used to initiate chemical reactions (e.g. metallurgical coal mixed with iron ore to produce iron and steel) or as an ingredient mixed with other materials, given the lack of feasible and commercially viable alternatives.
- ⁷ The relevant standard for members is the MDB / IDFC “Common Principles for Climate Change Adaptation Finance Tracking” (July 2015).
- ⁸ The relevant standard for members is the “International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting” (November 2015).