

Ambitious alignment with the Paris Agreement in public development banks

By E3G, Germanwatch, I4CE, NewClimate Institute



What does it mean to become aligned with the Paris Agreement?

PUBLIC DEVELOPMENT BANKS (PDBs), DEVELOPMENT AND CLIMATE CHANGE.

The climate crisis and the lack of articulation between climate and development threaten to slow down and even revert hard-won sustainable development gains, affecting the ability of PDBs to accomplish their development mandate. Alignment of PDBs with the Paris Agreement allows development action to support the climate transformation, while ensuring that equity issues and development benefits are enhanced. When PDBs align with the Paris Agreement, they support their main shareholders – governments – to achieve climate adaptation and mitigation commitments in a fair and just manner that underpins these countries' social contracts. To ensure their positive contribution to climate transformation and development, PDBs must leverage climate opportunities, systematically address greenhouse gas (GHG) emissions, and improve resilience against climate impacts, whilst managing financial risks – physical and transition - associated with climate change.

SUPPORTING A SYSTEM'S TRANSFORMATION.

Alignment with the Paris Agreement implies an organisation-wide effort to facilitate the transformation of the broader national systems towards a low-emission and climate-resilient economy. In terms of mitigation of climate change, this means to not only to avoid or reduce immediate emissions from operations, but to fund the activities that contribute to positive and longer-term transformation of a sector or a value chain. Some high GHG-emitting sectors and activities might need special attention in this process. 'Transition finance' can support shifting away from these polluting business models and enable real economy transitions. In terms of climate resilience, while for Paris alignment all activities should be proofed against physical climate risks and prevent maladaptation, a higher ambition approach should also focus on triggering positive system-wide transformations (on communities, regions, sectors, etc.). This requires PDBs to think about their investments in a systematic way to identify such opportunities at every level of engagement, thus ensuring that they inform country dialogue process and programmatic work. Finally, all PDBs' operations should be at least bound to the minimum principle of 'doing no harm' whilst ideally seeking to apply a principle of "doing good beyond do no harm" to promote positive transformations and identifying co-benefits. Doing no harm implies not supporting activities and assets that are inconsistent with global sectoral shifts and individual countries' low-emission and climate-resilient development pathways. This may work as a filter either to avoid funding inconsistent activities or to ensure that credible strategies are in place to support the transition of assets, beneficiaries, and counterparties.

A DYNAMIC PROCESS.

Ultimately, Paris alignment should not serve a static function of stamping PDBs' activities as aligned, but rather work as a dynamic and evolving process to promote internal and systemic change.

What high ambition means for PDBs:



STRATEGY

- **Vision:** agree on a **high-level vision** that acknowledges the climate crisis, its links with development and PDBs' role in addressing it through a continuous and systemic alignment with the Paris Agreement.
- **Mandates and financial means:** embed Paris alignment into PDBs' institutional mandates and ensure there is sufficient funding to effectively support local, national, and global climate challenges.
- **Climate strategy and implementation plan:** develop and regularly update a **climate strategy** with transparent targets, milestones, and indicators, forming roadmaps that are anchored in context-specific pathways for reducing emissions and improving resilience. Implementation plans should be used to specify the strategy, including with a calendar of activities and appropriate measures for monitoring and reporting.
- **Country and sector strategies:** mainstream climate considerations in PDBs' **country** and **sectoral strategies**, in line with science and Paris-compatible country development pathways.

PROCEDURES AND METHODOLOGIES



- **Precautionary approach: assume non-alignment** whenever an investment cannot be clearly categorised as aligned or not aligned. Limit the use of universally aligned lists to clearly defined cases, allowed under specific conditions. Stipulate clear exclusions of non-aligned projects in line with science, such as for new fossil fuel energy sources, which should have no space in a highly ambitious alignment.
- **Robust quantitative and qualitative processes:** incorporate climate considerations from the earliest stages and throughout the programming cycle, from project origination and before the commitment of resources, through due diligence, approval, intermediate impact evaluation and final evaluation. Revise institutional processes with the appropriate involvement of climate staff and within pre-defined timeframes, including to integrate any lessons learned.
- **Context-specificity:** develop **climate assessment thresholds, baselines and benchmarks** that are fit-for-purpose to institutional, sectoral, and local contexts, systematically opting for the most climate-friendly alternatives. Ensure that identified gaps feed back into country dialogue and internal technology, sectoral, country, and regional strategies.
- **Synergy between Paris alignment and climate finance:** use strategy, country programming and project-level screening of Paris alignment to identify and strengthen climate co-benefits and positive spillovers.

CAPACITY



- **Specialised expertise:** build necessary **expertise, resources, and inter-institutional cooperation** to advance in strategy, diagnostics, procedures, and for continuous capacity improvement across operational teams.
- **Organisation-wide capacity building:** dedicate sufficient resources to mainstream Paris alignment at all levels, from leadership to project officers and clients, ensuring that climate – and **nature and biodiversity** – is dealt with as a cross-cutting issue.
- **Internal responsibilities and incentives:** reflect **climate responsibilities across corporate governance frameworks**, updating key performance indicators, job descriptions and other career incentives such as bonuses and promotions.

TRANSPARENCY



- **Expectations, assumptions, and benchmarks:** clarify and publish underlying expectations, assumptions and benchmarks used for Paris alignment assessments of projects, improving objectivity of procedures while allowing better preparedness by executing agencies, clients, and other partners.
- **Accountability:** disclose **Paris alignment assessments of projects and climate impact-related data** to provide information to stakeholders and allow for informed feedback on approaches and analytics.

Recommended engagement with different stakeholders:

SHAREHOLDERS

- **Establish a close dialogue with shareholders** to demonstrate Paris alignment's supportive role to national commitments and strategies, the business case for the future viability and competitiveness of national products and services, the costs of inaction, the role of 'transition finance', the implications of ambitious Paris alignment on PDB operations.
- **Secure dedicated financing** to ensure Paris alignment is mainstreamed at every level of PDBs' activities, including engagement with different stakeholders, as well as for climate-related concessionality, CAPEX-associated costs and technical assistance.

FINANCIAL INTERMEDIARIES AND CORPORATES

- **Foster best practice:** guide financial intermediaries in the translation of countries' low-emission and climate-resilient pathways into corporate transition plans.
- **Provide standardised, clearer and harmonised directions:** set standardised requirements for the **alignment of different intermediaries and corporates profiles**, aiming at comparability, clarity and transaction costs reduction. Ideally, PDBs should cooperate and harmonise requirements to facilitate readiness of counterparties.
- **Actively support counterparty Paris alignment:** provide technical and financial support to counterparties in their alignment journey, with tiered levels of cooperation according to their specificities. **Consider using timelines** to request the adoption of climate targets and development of a transition plan, to integrate climate-related risks and to improve project-level due diligence as an incentive to accelerate this process.
- **Precautionary approach:** opt for counterparty's alignment with the Paris Agreement whenever transparency about the use of proceeds is deemed not feasible. Increasingly move towards the need for counterparty alignment in all intermediated finance, with clearer and tiered requirements and appropriate articulation for support measures.

CIVIL SOCIETY

- **Consultations and accountability:** maintain a **continuous dialogue** on methodologies, project assessments, local stakeholder engagement on climate needs and potential measures to address risks and inconsistencies with the Paris Agreement.

SOVEREIGN CLIENTS

- **Fund and/or provide technical support for:**
 - **NDC updates**, and development and operationalisation of **robust long-term strategies (LTS)** with emissions peaking as soon as possible and **reaching net-zero by mid-century**.
 - Climate policy and subsidy reform, including to inform national definitions of Paris-aligned and non-aligned activities, and to redirect inefficient fossil fuel subsidies in a phased manner towards the promotion of renewable investments.
 - Mainstreaming of climate-related risk management and resilience building from national budget allocation to sub-national decision-making, including implementation support to the private sector.
 - Development of enabling environments and **national pipelines** of projects that support the transition to a Paris-aligned economy, including through knowledge transfer and capacity building across sectors and value chains.
- **Support policy action and cooperate on country programme development: support climate policy action in all sectors**, while ensuring that NDCs and LTSs are embedded in **country programmes and intervention strategies**, thus informing PDBs' sovereign operations.

COOPERATION ACROSS PDBs

- **Capacity, expertise, and lessons learned:** engage in active and transparent exchange **across different groups of PDBs**, bilaterally or through existing groups that work on SDG and Paris alignment-related topics – e.g. **Mainstreaming Climate in Financial Institutions, International Development Finance Club (IDFC)**, **Finance in Common Summit (FICS)**, etc.
- **Actively identify and pursue operational synergies and coordination opportunities:** to deliver financial and technical support, to strengthen complementarity in practice and to ensure resources are used as effectively as possible across PDBs.
- **Continuously improve and harmonise approval and reporting:** improve **harmonised processes for Paris alignment screening and reporting** among international PDBs, including through joint reporting on non-alignment and commonly identified risks.
- **Increase coordination on country platforms and baselines:** towards transparent, consistent, and comparable information on global, national, and sectoral strategies, programmatic approaches, and assessments' baselines.

For additional information:

- Ahlgren, V., Sabogal, L., Chin, N., Bagnera, E., & Pinko, N. (2023). **Enhancing MDB-NDB Cooperation: Understanding climate finance flows and Paris Alignment.**
- Bendahou, S., Pauthier, A., & Cochran, I. (2022). **Long-term strategy use for Paris-Aligned investments: The case of Development Finance Institutions.**
- FiCS. (2023). **Financial Communiqué - 2023 Finance in Common Summit.**
- Germanwatch, NewClimate Institute, & World Resources Institute. (2020). **Raising the Game on Paris Alignment:**
 - Fekete, H., Röser, F., & Hagemann, M. (2020). **Aligning Multilateral Development Banks' Operations with the Paris Agreement's Mitigation Objectives.** In *Raising the Game on Paris Alignment.*
 - Westphal, M. I., & Sidner, L. (2020). **Enhancing Adaptation and Climate-Resilient Operations within the Multilateral Development Banks.** In *Raising the Game on Paris Alignment.*
 - Affana, J. P. B., Bartosch, S., & Ryfisch, D. (2020). **Climate Finance: Accelerating the transition to carbon neutrality and climate resilience.** In *Raising the Game on Paris Alignment.*
 - Sidner, L., & Westphal, M. I. (2020). **Advancing Paris Alignment through Multilateral Development Banks' Engagement and Policy Development Support.** In *Raising the Game on Paris Alignment.*
 - Voß, M., Bartosch, S., & Ryfisch, D. (2020). **Paris-Aligned reporting by Multilateral Development Banks.** In *Raising the Game on Paris Alignment.*
 - Fekete, H., Nascimento, L., & Kachi, A. (2020). **Aligning Multilateral Development Banks' Internal Operations with the Paris Agreement.** In *Raising the Game on Paris Alignment.*
- IDFC. (2023). **Making the financial system consistent with achieving the SDGs: Elements for the implementation of SDG alignment by Public Development Banks.**
- IDFC. (2023). **Contribution to the UNFCCC Post-2025 Climate Finance dialogues.**
- Lütkehermöller, K., Kachi, A., Pauthier, A., & Cochran, I. (2021). **Operationalization Framework on Aligning with the Paris Agreement.**
- Kachi, A., Bendahou, S., & Outlaw, I. (2024). **Financing coal phase-out: Public development banks' role in the early retirement of coal plants.**
- Neunuebel, C., Gebel, A., Laxton, V., & Kachi, A. (2022). **Aligning Policy-Based Finance with the Paris Agreement.** World Resources Institute.
- OECD. (2019). **Aligning Development Co-operation and Climate Action: The only way forward.** OECD Publishing.
- Pauthier, A., & Kachi, A. (2023). **Supporting financial institutions in developing countries in their alignment journey with climate goals: How IFIs can start moving from a project, to a counterparty and system level approach.**
- Sabogal Reyes, L., Ahlgren, V., Collache, A., Guirado Wilson, F., Chung, S. (2020). **E3G Public Bank Climate Tracker Matrix.**

Co-authors:



E3G

Laura SABOGAL
<https://www.e3g.org/>



Anja GEBEL
<https://www.germanwatch.org/>



Luis ZAMARIOLI SANTOS
Claire ESCHALIER
Sarah BENDAHOU
<https://www.i4ce.org/en/>



Hanna FEKETE
Imogen OUTLAW
<https://newclimate.org/>

Acknowledgements

We would like to thank Élise DUFIEF (IDDRI) for the valuable inputs throughout the development of this document.