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# Implementing Paris Alignment for Development Finance

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# Aligning with the Paris Agreement

## A joint project between I4CE and CPI

*Mandated by the International Development Finance Club (IDFC) and the European Climate Foundation (ECF), Climate Policy Initiative (CPI) and the Institute for Climate Economics (I4CE) have conducted a research project in two parts, resulting in:*

- *a Discussion Paper (Part 1)*
- *a Final Report (Part 2) on “Implementing Alignment with the Paris **Agreement**”.*



Part 1 establishes a theoretical and conceptual basis for alignment.



Part 2 identifies the changes the Paris Agreement implies for the role of Development Finance Institutions (DFI) – specifically, members of the IDFC.

# Financial Institutions are Committing to Align Activities

- Many will be called to directly contribute to the achievement of the long-term climate goals by shareholders;
- All will need to manage the risks and opportunities associated with the needed transformation of the economy and the financial environment;
- All will need to take into account and respond to the changing physical climate.

# Three Dimensions for Defining Alignment

## A Comprehensive Scope of Action:

Screen all activities for contribution to low-GHG climate-resilient development

## A Long-Term Time Horizon to Guide Impact:

Ensure that near-term actions contribute to the achievement of long-term goals

## An Ambitious Scale of Contribution:

Actively support national and international transformations across all activities

# A Comprehensive Scope of Action

Screen all activities for direct or indirect contributions to low-GHG climate-resilient development

- Sectors & Business Areas: Consideration of all economic sectors and activities, not just 'climate-related' sectors.
- Systems / Value Chains: Take into account impacts and influence on systems and entire value chains, both at national and global levels.

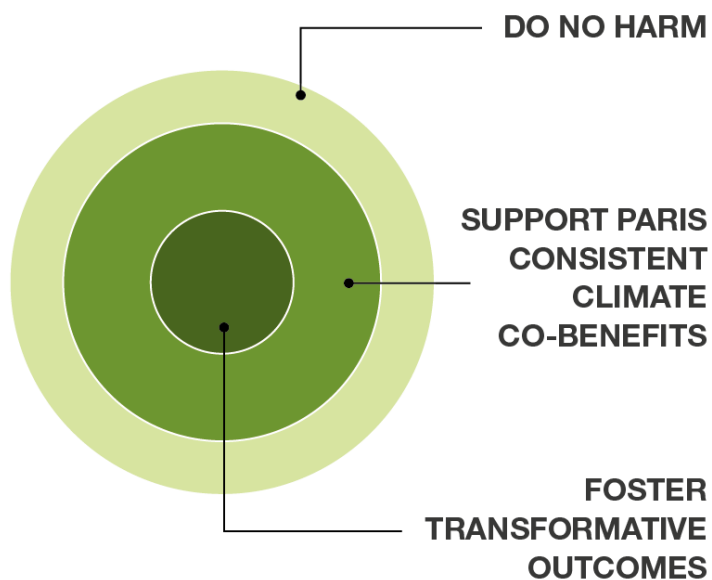
## A Long-term Time Horizon:

Ensure that near-term actions contribute to the achievement of long-term goals

- Lock-in & Mal-Adaptation: Prioritize actions that are consistent with both near- and long-term climate objectives and do not lead to lock-in or mal-adaptation.
- Relative & Absolute Impacts: Recognize that activities that result in 'relative' rather than 'absolute' emissions reductions or enhanced resilience may be insufficient or counterproductive to achieving long-term goals.

# An Ambitious Scale of Contribution:

## The Paris Alignment 'Bulls Eye'



**Low-GHG Development:** Scale-down and stop non-consistent operations. Avoid locking-in emissions.



**Adaptation:** Avoid decreasing resiliency, increasing vulnerability, and contributing to maladaptation.



**Financial Flows:** Stop support of non-consistent flows whether direct or through intermediation.



**Low-GHG Development:** Contribute to the decarbonization of the entire economy and society.



**Adaptation:** Contribute to increasing adaptation, resilience and adaptive capacity of investments.



**Financial Flows:** Foster contributions of own flows and those of partners.



**Low-GHG Development:** Facilitate the transformation to low-GHG systems and value chains.



**Adaptation:** Facilitate and reduce the cost of adaptation actions to long-term climate change.



**Financial Flows:** Support the 'consistency' of the broader financial system (regulation, norms, transparency)

## CPI Study

- Objective: To identify concrete steps that DFIs can take to implement alignment
- Of the 24 IDFC members, we surveyed 8, representing 20% of total IDFC assets
- Further in-depth interviews were conducted with 6 members



## DFI Assets Under Management

IDFC  
\$4 trillion



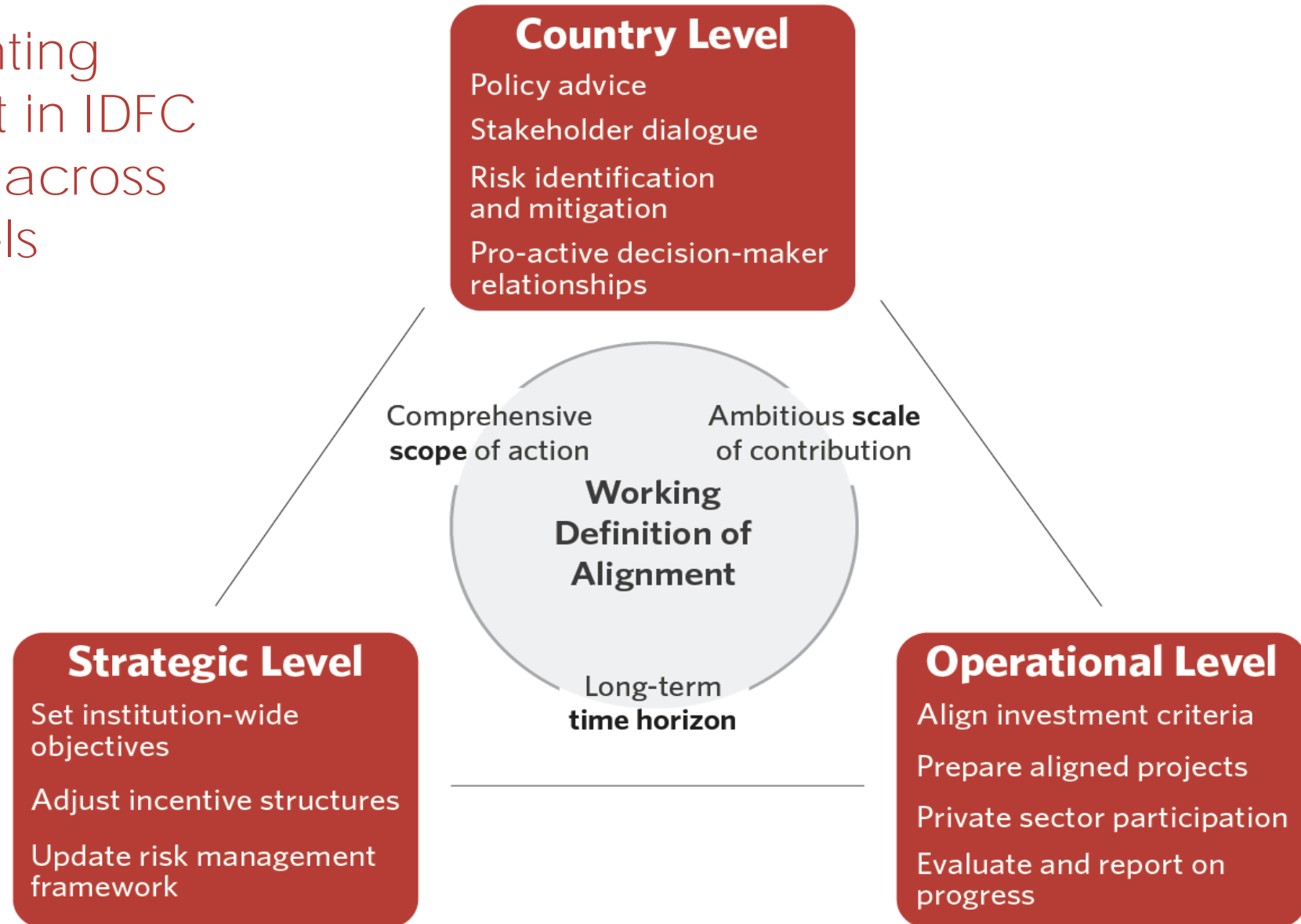
MDBs  
\$1.5 trillion





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## Implementing Alignment in IDFC members across three levels





Working  
Definition of  
Alignment

Description of how an institution understands alignment in their own context

Comprehensive Scope of Action	<ul style="list-style-type: none"><li>✓ Covers all operations of an institution</li><li>✓ Recognizes the institution's potential to affect systems and value chains</li></ul>
Ambitious Scale of Contribution	<ul style="list-style-type: none"><li>✓ Supports Paris-Aligned climate co-benefits and fostering transformative change</li><li>✓ Stops non-aligned activities</li></ul>
Long-Term Time-horizon	<ul style="list-style-type: none"><li>✓ Short-term milestones contribute to long-term objectives</li><li>✓ References how targets will be regularly adjusted upwards based on progress</li></ul>



## Working Definition of Alignment

### Member Examples:

- One member is developing a working definition of alignment based on **an article-by-article analysis** of the Paris Agreement
- One member has **referenced 100% Paris compatibility** in its working definition
- Another member has established an **internal task force** to identify and evaluate among different definitions.

# Country Level Alignment

1. Support governments to build capacity on and develop forward-looking policy analysis and reform

## Member example:

*The AFD Adapt'Action Facility provides support for translating NDCs into long-term sectoral public policies focused on the most climate-vulnerable sectors.*

# Country Level Alignment

2. Build in-country capacity to identify and mitigate climate risks

Member example:

*DBSA is undertaking an expert study for its energy strategy that will inform a **least cost approach**; **how to manage transition risk**; and **how to support a just transition**.*

*\*Development Bank of South Africa*

# Country Level Alignment

3. Work pro-actively with government stakeholders to understand and prioritize alignment alongside development priorities
4. Facilitate multi-stakeholder dialogue to include ministries beyond environment, as well as the private sector and civil society

## Member example:

*The CABI **Governors' Assembly issued a Carbon-Zero statement** supporting the implementation of sector-specific low-carbon resilient pathways and greater transparency and accountability for green project outcomes.*

# Strategic Level Alignment

1. Adopt institution-wide objectives to drive the phase-out of non-aligned projects and encourage projects that meet criteria for transformative change on the other.

Member example:

DBSA introduced a target for private finance mobilization. **Catalyzing finance** is featured in their corporate scorecard.

## Setting Institution-wide objectives...

### Paris-Aligned Share of Portfolio

Projects that do no harm to climate objectives

Target for projects with climate co-benefits consistent with Paris Agreement (%)

Targets for projects with a transformative change element & private sector mobilization (%)

### Non-Aligned Share of Portfolio

Target date for complete phase out

## ... Accompanied by Robust Criteria

*Develop new criteria:*

- ✓ Systems impact
- ✓ Transformative change
- ✓ Long-term contribution

*Update existing criteria:*

- ✓ Institution-wide application
- ✓ Eligibility criteria
- ✓ Exclusion criteria



# Strategic Level Alignment

2. Build capacity and generate buy-in among staff to support implementation across all operations.

Member example:

Several members cited **applying for GCF accreditation as important for shedding light on skills and capacity gaps**, and serving as a starting point for knowledge exchange.

# Strategic Level Alignment

3. Encourage investments in aligned activities as well as manage climate risks.

Member example:

AFD scored each existing client in its loan portfolio against five major climate hazards and “attention flags” were allocated to some counterparties. This approach is also being integrated into the loan origination process at the country level.

1. Update investment processes and criteria across all operations, including direct lending, intermediary lending, procurement, and technical assistance

Member examples:

Several IDFC members use exclusion lists and/or have **declined project investments due to non-alignment** with the Paris Agreement, including several highly emissive and/or high lock-in effect projects.

Operational  
Level  
Alignment

2. Support clients with development of aligned projects and programs from the earliest stages

Member example:

AFD's SUNREF initiative supports local financial institutions with credit facilities and technical assistance in sustainable finance. Its success led to replication at scale with GCF support to **transform local FIs' lending practices in sustainable finance.**

\*SUNREF: Sustainable Use of Natural Resources and Energy Finance

Operational  
Level  
Alignment

3. Increase use of modalities, such as risk mitigation instruments, that are effective at mobilizing private capital

Member example:

DBSA has established an **innovation unit to design financial instruments** to improve project bankability.

Operational  
Level  
Alignment

4. Measure, evaluate and share knowledge on a regular basis. This will allow IDFC members as a whole to improve their approaches and methods over time.

Example:

IDFC Climate Facility established 2019

Operational  
Level  
Alignment

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## Room for Collaboration



- Technical cooperation
  - Definitions
  - Metrics
  - Methodologies
  - Modeling
- Support:
  - Financial and capacity building



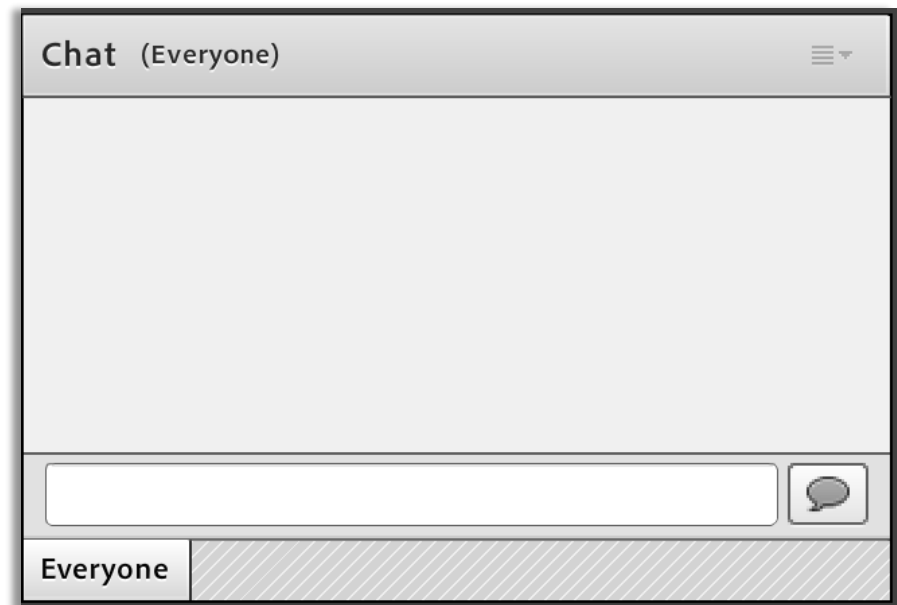
Implementing alignment for development finance institutions will not be easy, and it will take time – and therefore it should start now.

- DFIs benefiting from centralized leadership can start at the strategic level, focusing on how their mandate and accompanying mission statements, strategies, and risk management framework do or do not support alignment.
- DFIs with more challenging political environments can start from the operational level, focusing on proofs of concept, definitions and criteria for transformative change, and leveraging external resources.
- Ultimately, leadership at all levels is needed.



# Questions?

Please type questions into the chat box on the lower right-hand side of the screen.



# Explore our work

Read the full report:

[climatepolicyinitiative.org/publications](https://climatepolicyinitiative.org/publications)

Join our webinar for the 2019 Global  
Landscape of Climate Finance - Nov. 7&8:  
[climatepolicyinitiative.org/events](https://climatepolicyinitiative.org/events)

Attend our COP workshop on alignment:  
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# Thank You