

Alignment of Multilateral Development Banks with the Paris Agreement

Germanwatch, NewClimate Institute and World Resources Institute

BACKGROUND

With the Paris Agreement, country governments have agreed to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. Multilateral Development Banks (MDBs) have a critical role to play in helping countries meet the objectives of the Paris Agreement: MDBs are major finance providers to developing countries, including for infrastructure, much of which will be around for decades and therefore have a long-term effect on countries' development trajectories, resilience, and future carbon emissions. The banks also directly or indirectly mobilize additional finance by acting as lead investors and attracting others to invest alongside them.

OBJECTIVES

The project "Alignment of Development Finance with the Paris Agreement" funded by BMZ and implemented by Germanwatch, NewClimate Institute, and the World Resources Institute aims to support MDBs and other development finance providers in translating the Paris Agreement to their operations.

It includes the following work packages:

- Engagement with MDBs
- Engagement with members of the International Development Finance Club (IDFC)
- Development of Paris-aligned investing criteria on a sector level

OUTPUTS SO FAR – SIX BUILDING BLOCKS FOR PARIS ALIGNMENT

The MDBs have jointly committed to support the Agreement through aligning their activities, along six "building blocks":

1. Alignment with mitigation goals
2. Adaptation and climate-resilient operations
3. Accelerated contribution to the transition through climate finance
4. Engagement and policy development support
5. Reporting
6. Align internal activities

In 2019, the project consortium has elaborated inputs to each of the building blocks, in order to provide recommendations for an ambitious, robust yet practical implementation of the Paris Agreement. The next sections summarise the recommended key principles for each building block.

For Alignment with mitigation goals, we recommend MDBs to peak portfolio-wide GHG emissions as soon possible and aim for net-zero CO₂ emissions by around 2050. These targets should be underlying any decision on individual investments and strategies. Where an investment cannot be clearly categorised as aligned or misaligned, e.g. because of lack of data or uncertainty regarding a Paris-aligned pathway, we recommend assuming misalignment. Because uncertainty is high for investments in natural gas, we assume that fossil fuel investments are misaligned unless proven otherwise. MDBs need to enable and support countries to go beyond their current mitigation policies and targets to support Paris-aligned pathways, in order to meet the mitigation objectives of the Paris Agreement.

For **adaptation and climate-resilient operations**, we recommend MDBs to consider both the resilience *of* and the resilience *through* investments. MDB investments should consider climate risk across time scales, evaluate opportunities and adaptation options for reducing risk, and incorporate decision making under uncertainty. The benefits of resilience should be measurable across sectors. To this end, we argue that the MDBs need to do two major things to make their operations Paris aligned with regard to adaptation: (1) ensure that all investments are climate-resilient by adopting robust quantitative processes that incorporate climate risks and adaptation options in project design and analysis, and (2) enhance the quality of climate adaptation projects by adopting climate adaptation/resilience metrics.

For the **accelerated contribution to the transition through climate finance**, we state that not everything that is Paris-aligned will be climate finance, but everything that is climate finance should also be Paris-aligned. We recommend to limit MDBs 'climate finance' to those activities that will continue to be part of a decarbonized economy, thereby sending a clear signal to markets. Fossil-fuel related activities should thus not be labelled climate finance. Climate finance must be traceable, comparable and not at risk of double-counting in accordance with the Paris Agreement's objective of increased transparency.

For Paris-aligned **engagement and policy development support**, we recommend that MDBs use all available tools, including the country engagement process and Paris-aligned policy-based finance, to incentivize countries to develop ambitious long-term strategies and enhanced NDCs. Additionally, the MDBs should scale up the support they provide governments to develop and implement ambitious national climate plans, particularly in the lead up to the 26th Conference of the Parties (COP26), which will be a key milestone for national climate plans. We also recommend that the MDBs develop policies and strategies to incentives financial intermediaries and other actors to define their own long-term decarbonization targets.

To support Paris-alignment, **reporting** should not be limited to climate finance volumes mobilized for mitigation and adaptation. Paris-aligned reporting should entail climate-related financial risks and project impacts on emissions and resilience as identified by scenario analysis. Transparency on the progress towards Paris alignment should also include reporting on misaligned activities disclosing, for example, the ratio of misaligned to total assets. Rigorous and harmonized disclosure will help to build mutual trust and confidence amongst financial actors.

To align internal activities, it is required to set a strategy to make MDB operations zero-carbon as soon as possible but latest by 2050 with milestones every five- years. Considering MDBs' role model function, we suggest turning the IPCC's decarbonisation target of net-zero CO₂ by 2050 into an ambitious benchmark for internal operations. To support the overall target, we recommend specifying targets for key performance indicators to define a concrete pathway for decarbonisation. MDBs need to measure and report those indicators periodically to assess progress towards the overall decarbonisation target. Lastly, we recommend aiming for ambitious mitigation efforts internally and limit the role of offsetting.

PROJECT OUTLOOK

The consortium is accepting comments on its discussion papers until end 2019 and will publish final versions by early 2020. Supported by BMZ, we will continue to strengthen the Paris Alignment process of MDBs by developing detailed sector guidance notes.

Contact:

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Find the full version of the discussion papers at: www.germanwatch.org/en/17309

