

UN CLIMATE CHANGE CONFERENCE UK 2021

IN PARTNERSHIP WITH ITALY

Progress Report: Multilateral Development Banks Working Together for Paris Alignment

3rd November 2021



Major highlights since COP25

1

SOCIAL AND ECONOMIC LANDSCAPE IN 2021 IS UNPRECEDENTED

- MDBs rapidly prioritized their resources to help client countries respond to the COVID crisis and are looking to support green recovery

2

WE HAVE DELIVERED ON EXISTING CLIMATE COMMITMENTS

- In 2020, we committed 61.6 US\$ billion in climate finance in all economies where the MDBs operate, of which 41.5 US\$ billion went to low- and middle-income economies

3

WE HAVE ACHIEVED STEADY PROGRESS ON THE PARIS ALIGNMENT APPROACH

- Proof tested methodologies
- Data gaps persist at the country and sectoral level which ask for building robust and realistic country-owned, low-carbon and climate-resilient development strategies

From COP26 into 2022

4

WE WILL PLAY AN ESSENTIAL ROLE IN DRIVING AND ENABLING COUNTRY-OWNED AMBITIOUS CLIMATE ACTION LINKED TO SDGs, LTS and NAPs

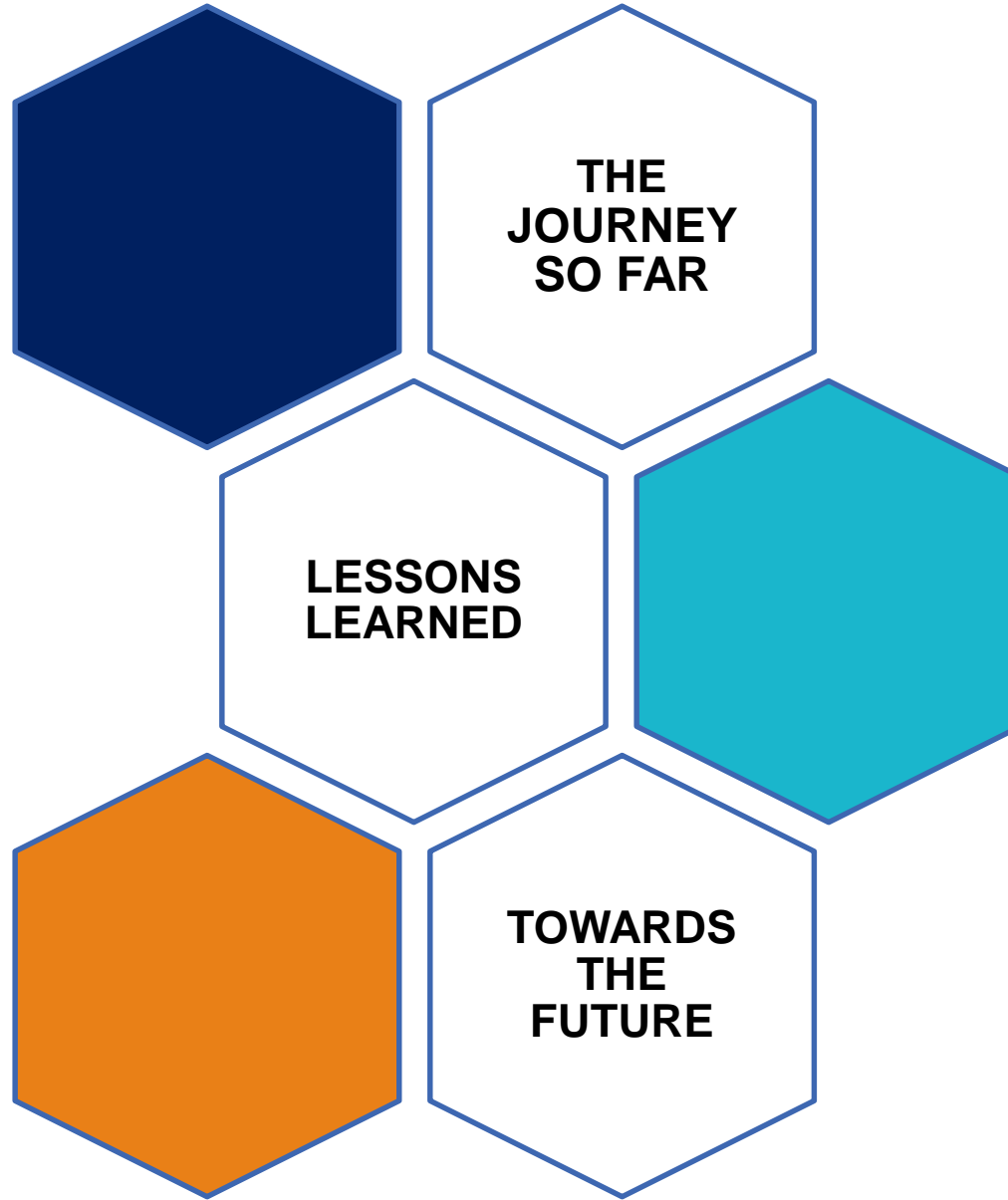
- Helping countries make right investments today, incorporating and guided by Long Term Strategies and just transition pathways, that can unlock short term gains – including support for robust and ambitious LTS and NDCs - jobs and economic growth – as well as deliver on decarbonization and resilience
- Deliver and mobilize climate finance at scale to help implement transformational change

5

WE ARE MOVING FROM CONCEPT TO PRACTICE WITH THE JOINT METHODOLOGIES PROVIDING GUIDANCE TO THE BROADER DEVELOPMENT COMMUNITY

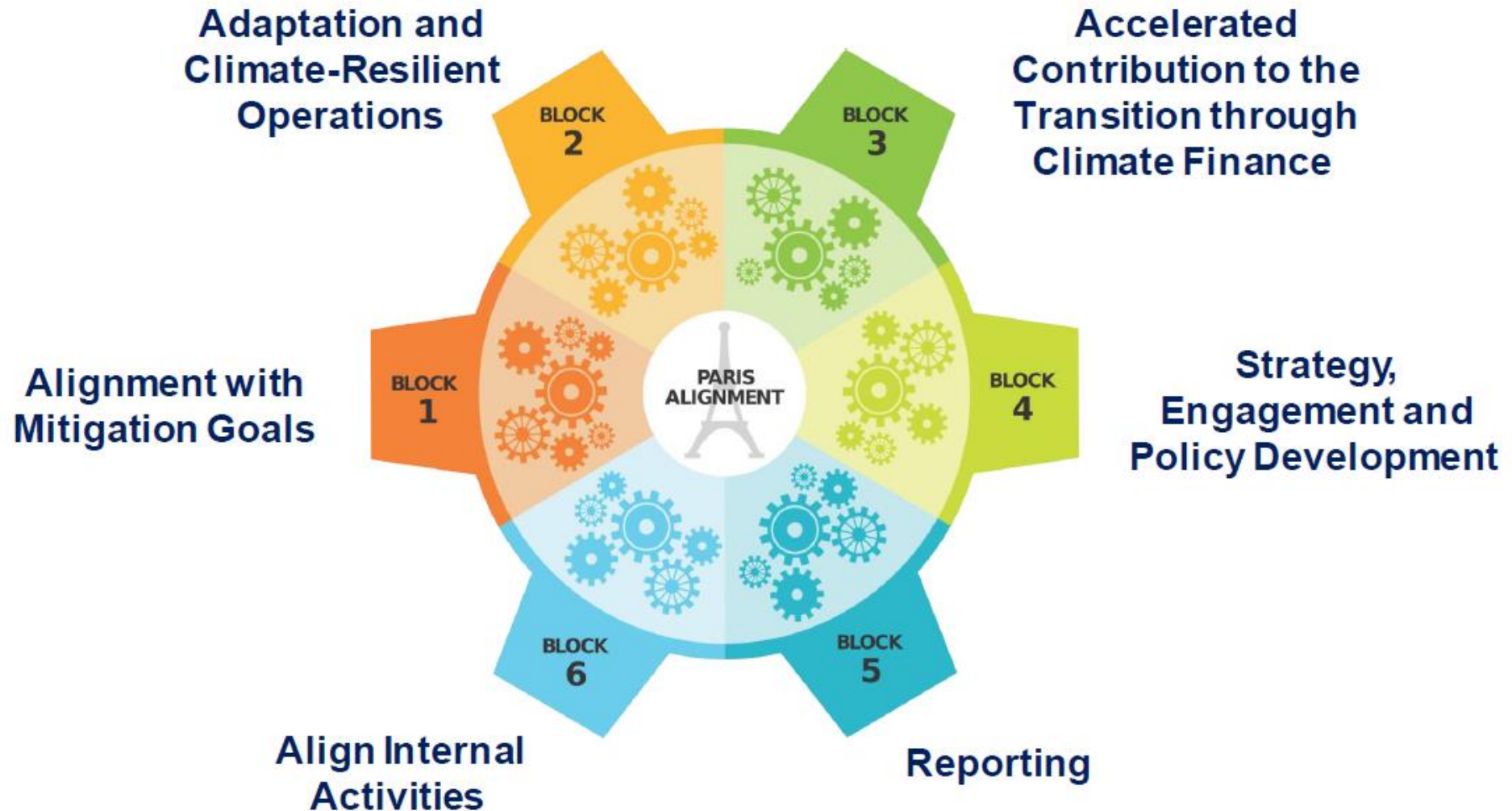
- Continuing to road test the methodologies to enhance the transparency and comparability of their implementation across MDBs, and to enable other development partners to deploy it

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MDB Paris Alignment Framework – launched COP24

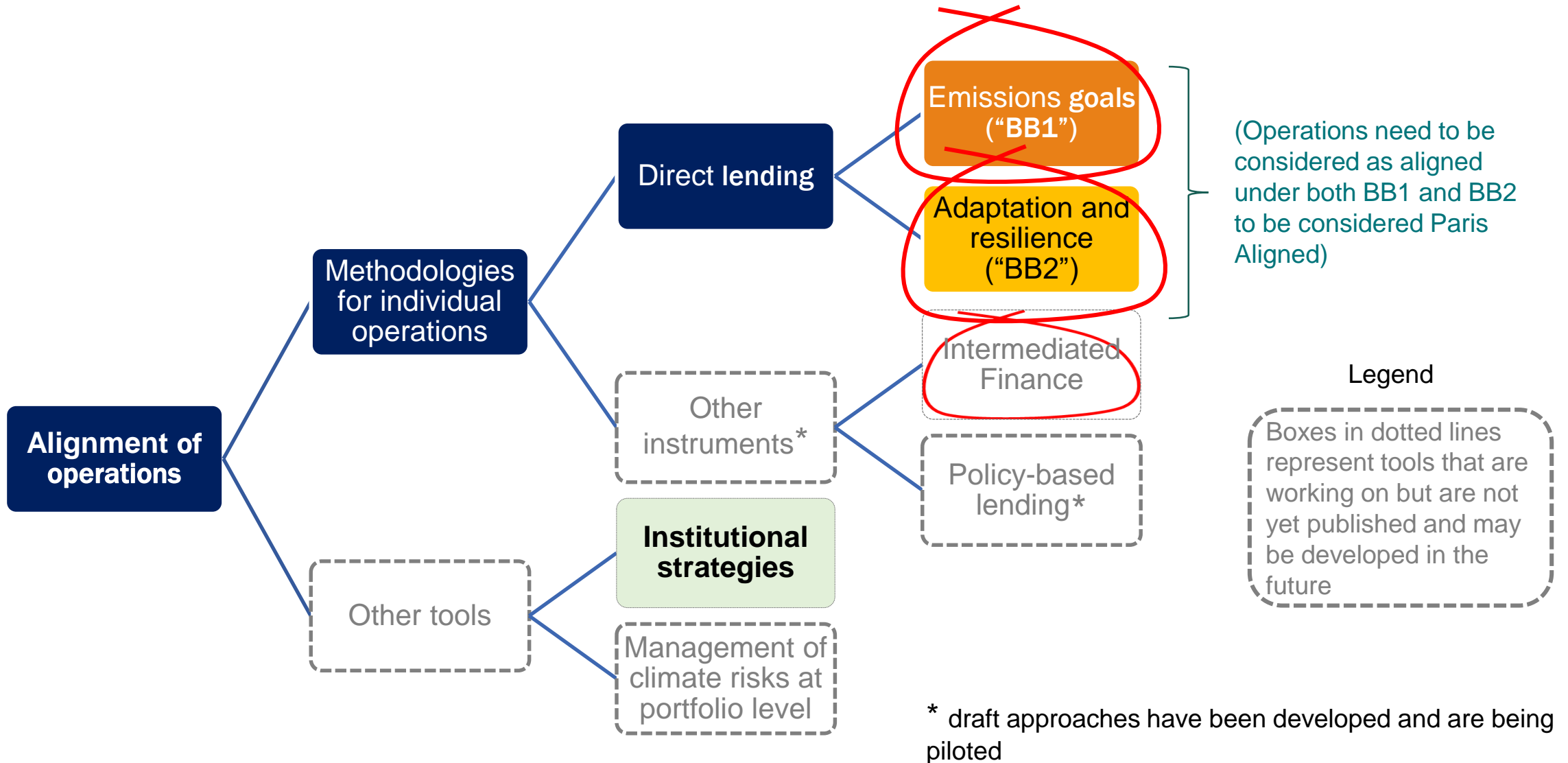
– the basis of our joint work

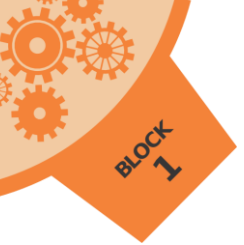


Principles for Alignment of Operations Assessment

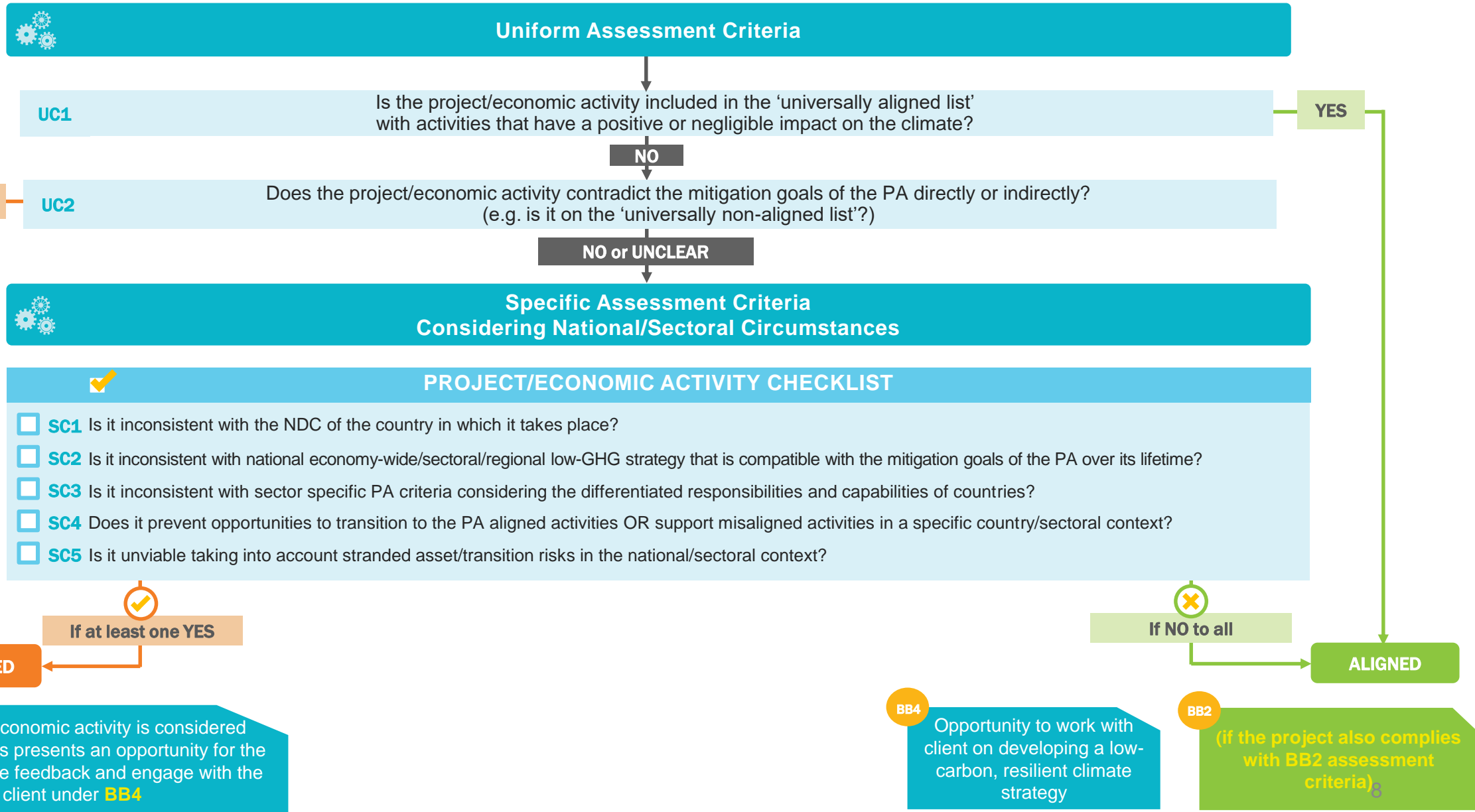
- In line with the Paris Agreement, the concept of alignment has to do with the **consistency of operations with the countries' low-GHG, climate-resilient development pathways** and **compatibility with the overall climate change mitigation and adaptation objectives of the Paris Agreement**
- Aligned projects **must not undermine** the PA objectives and principles (especially Arts. 2 and 4)
- The assessment is based on **expert judgment** and does not represent an endorsement or judgment of the countries' / clients' own alignment
- Projects are characterized as either '**considered aligned**' or '**considered non-aligned**'
- The assessment is based on the information, data and assessment tools available and designed to **take into account uncertainty** and evolving technology and development scenarios
- Projects with multiple components are assessed considering the overall objective of the project and alignment of each component (**all components need to be aligned**)
- In some instances, the extent of assessment needs to take into account the **broader economic activity** in which the project operates

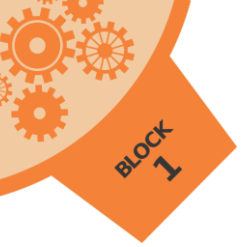
Alignment of operations toolbox and status





BB1 Assessment Framework





Considered Universally Aligned and Non-aligned Lists

Considered universally aligned list

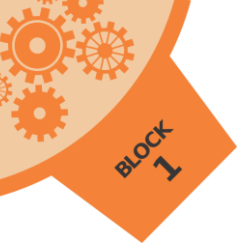
This list contains a number of activities that are considered aligned regardless of the national context.

(The following general exceptions apply to this list:
Projects whose economic feasibility depends on external fossil fuel exploitation, processing and transport activities;
Projects whose economic feasibility depends on existing fossil fuel subsidies; Projects that rely significantly on direct use of fossil fuels)

Considered universally non-aligned list

This list contains four activities that are considered non-aligned regardless of the national context:

- Mining of thermal coal
- Electric power generation from coal
- Extraction of peat
- Electricity from peat

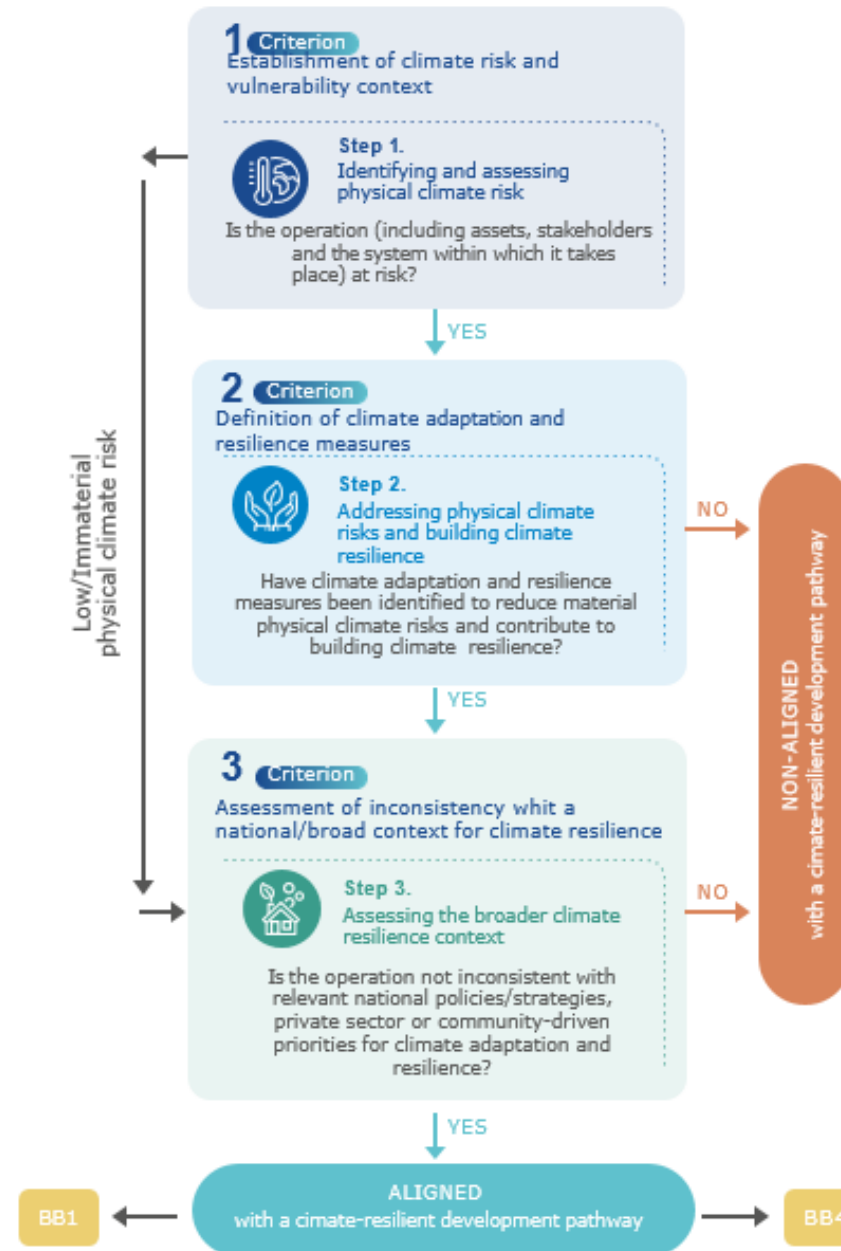


BB1: Paris Alignment Guidance Note

PA assessment methodology for direct finance

- Over the past years, the MDBs have been operationalising the BB1 approach for direct finance within each institution.
- There has been active exchange of information on technical implementation challenges, for example related to S4 criteria application.
- Further clarification was made among MDBs on the interpretation of specific questions on NDCs/LTS.
- Based on this cooperation, MDBs produced a joint-BB1 Guidance Note - now shared for this event as one working draft technical note combined with the BB2 approach - to provide public information on Paris alignment assessments.
- Going forward, it will be important for MDBs to continue exchanges on project-level assessments to reflect evolving best practices.

BB2 Assessment Framework





BB2 Assessment Framework

1 – Is the operation (including assets, stakeholders, and systems as relevant) at risk?

Identifying and assessing the physical climate risks that could affect the operation over a relevant time horizon.

- ✓ *Assessing exposure and sensitivity of the operation within its boundaries*
- ✓ *Assessing overall vulnerability to climate hazards and the need for a system-level risk assessment*

2 - Have climate adaptation and resilience measures been identified to reduce physical climate risks and/or contribute to building climate resilience

Ensuring that climate resilience measures have been included in the operation to address or manage any material physical climate risks identified in Step 1.

- ✓ *Incorporating measures to address climate risks*
- ✓ *Considering the potential for maladaptation*
- ✓ *Documenting the processes and measures established for climate adaptation and resilience*

3 – Is the operation consistent with relevant policies/strategies, private sector or community-driven priorities for climate resilience?

Ensuring that operations are not inconsistent with policies/strategies/plans for climate adaptation and resilience at the national, local, city, regional, or territorial level, and/or with private sector or community-driven priorities.

- ✓ *Identifying policies/strategies as well as private sector or community-driven policies for climate resilience*
- ✓ *Establishing that the operation is not inconsistent with these policies/strategies/plans or priorities*

PA of indirect financing: methodological framework

1



Paris alignment

In line with the Paris Agreement, the concept of alignment refers to making MDB finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. Therefore finance is compatible with the climate change mitigation and adaptation objectives of the Paris Agreement.

2



Paris alignment of financial intermediaries: a challenge and opportunity

Financial intermediaries are crucial to deliver on Paris. However the arms-length nature of the intermediated financing, combined with limited capacity of partner financial institutions to manage climate risks and exploit opportunities presents a challenge to align finance. This is set against a fragmented external landscape of initiatives and a lack of regulation in most markets.

3



MDB alignment framework for intermediated finance: engagement for systemic impact

Focused on the transformation of partner financial intermediaries with a dual focus on:

- “who” by developing credible institutional alignment pathways in line with leading market and regulatory practice.
- “what” by ensuring sub-transactions are consistent with Paris mitigation and adaptation goals

4



MDBs working together and with others to green the financial system

To support the implementation of the alignment framework MDBs will work together to pool their leverage and coordinate engagement with clients. MDBs will also work with others on financial sector policy, regulation and best practice – influencing a climate aware regulatory environment

PA of financial intermediaries: a challenge and opportunity

Unparalleled opportunity for MDBs to partner with financial intermediaries to deliver on the aims of the Paris Agreement...

- Banks and other financial sector actors are crucial to accelerate the low carbon and climate resilient transition required to deliver on the aims of the Paris Agreement.
- Intermediated finance flows indirectly, via the counterparty, to final beneficiaries. MDB finance can involve a variety of different financial instruments with defined use of proceeds.

...but remains challenging

- At the time of the MDB investment decision there may be limited information on the sub-transactions that will be financed.
- Most financial intermediaries are broadly exposed to the economic activities of the countries they operate (so are dependant on broader policy signals supporting climate action, which differ country to country).
- Financial intermediaries are at varying level of readiness and their approach to Paris alignment will be influenced by the pace (or lack) of regulation.

Paris alignment of MDB intermediated lending implies...



...the MDB financial flow and the broader activities of the partner financial intermediaries (PFIs) can be used as the basis for alignment determination.



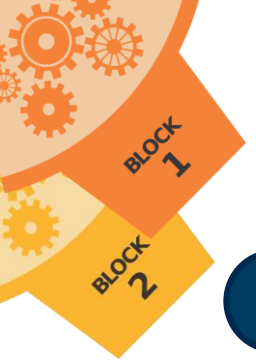
...PFIs needs support towards the end goal of Paris aligned corporate practices, and MDBs should ratchet expectations over time.



...using external market frameworks or best practice linked to Paris alignment and harmonise approaches amongst MDBs.



...work to improve climate related financial regulation and practices through international initiatives and targeted policy work at regional / national level.



MDB alignment framework for intermediated finance: engagement for systemic impact

1

Credible alignment pathway (counterparty based)

Commitment of partner financial intermediary

Partnership between MDB and PFI to improve corporate practices around climate change.

Tailored approach

Expected progress will be based on readiness, market context, existing practices, capacity of counterparties, regulatory context.

Periodic assessment against agreed milestones.

Adoption of measures

Based on leading market and regulatory practice PFI will adopt measures linked to:

- Shaping investment and portfolios towards investments in climate action;
- Building capacity, tools and processes to improve risk management and disclosure linked to climate considerations.

2

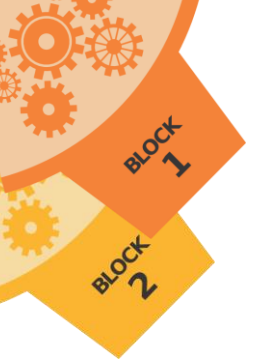
Paris aligned use of proceeds (transaction based)

Alignment with mitigation goals

- Use of proceeds exclude investments in non-aligned activities (based on MDB not-aligned project lists).
- Use of proceeds limited to aligned activities (based on MDB aligned project lists characterised by limited carbon intensity and carbon lock-in risk).
- Where alignment uncertain, the 'credible alignment pathway and improved PFI practices' approach will be prioritised.

Alignment with adaptation goals

- Use of proceeds may be aligned if physical climate risks are determined as limited or widely dispersed across a sectoral or geographical boundary.
- Where alignment uncertain, a supportive, 'enabling' approach – engaging with counterparties to help build readiness and capacity for physical climate risk management will be prioritised.



MDBs working together and with others to green the financial system

Supporting the implementation of the MDB alignment framework through a whole of sector approach

MDB collaboration

Pooling expertise



Building a shared broad understanding of milestones to measure progress of credible alignment pathway and laying the ground for enabling Paris aligned transactions.



Coordinating engagement



Pooling leverage with clients and mutual recognition of client engagement to support Paris alignment.

Working with others

Understanding best practice and sharing experience



Working with leading initiatives (e.g. TCFD, NGFS) and organizations (ECB, IMF) on financial sector policy and regulation for climate action.



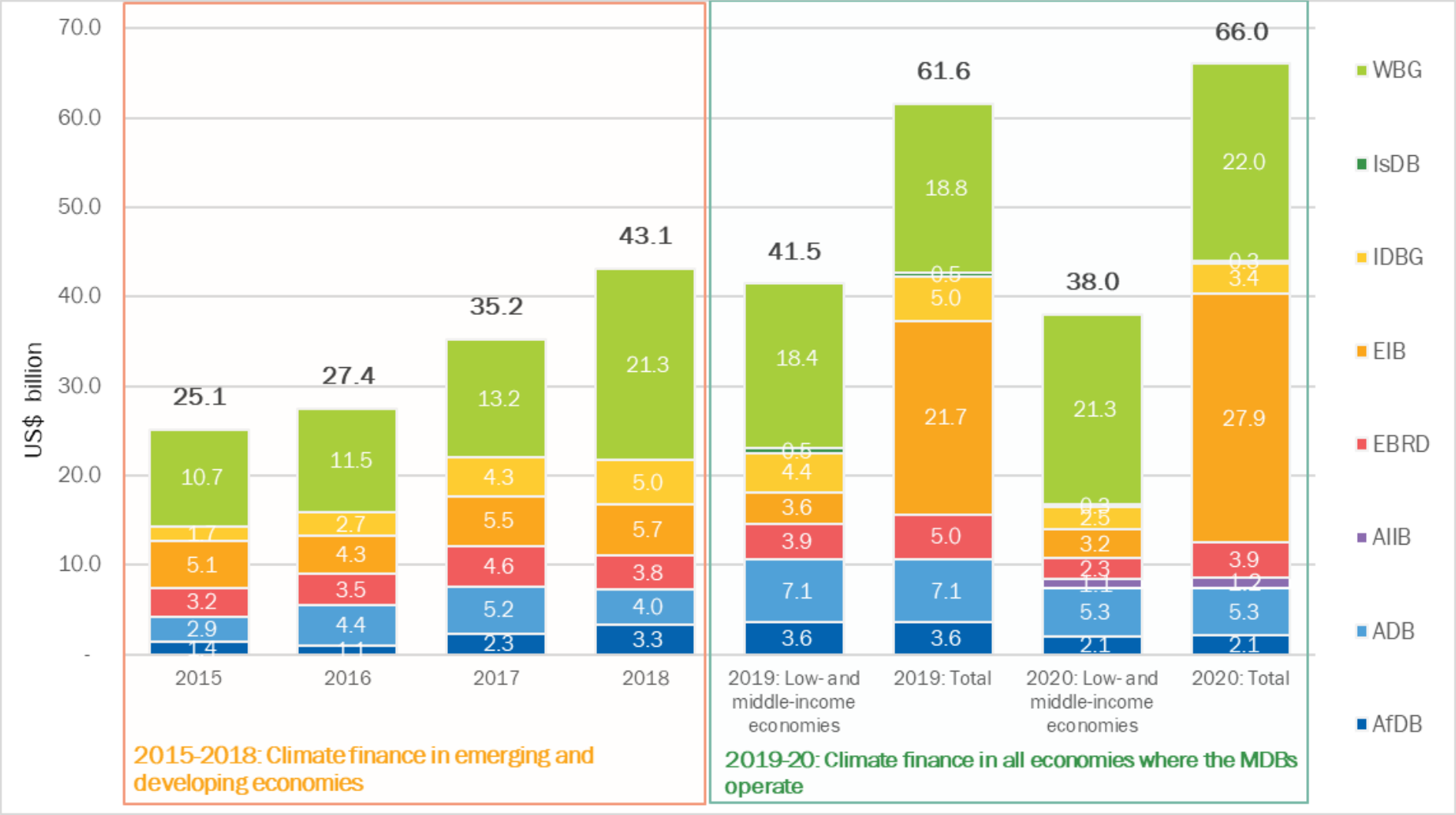
Regional and national level engagement



Working with financial regulators, central banks, policymakers, banking associations and others in client countries.

MDBs' Climate Finance reporting

Climate finance commitments* 2015-20 (in US\$ billion)



* Approvals or signatures

MDB/IDFC Common Principles for Climate Mitigation Finance Tracking updated to reflect the Paris alignment approach

- The Common Principles have been updated by the Climate Finance Tracking working group of the MDBs and a group of representatives of the International Development Finance Club (IDFC) member banks. **Published 18 Oct 2021**
- The updated Principles:
 - i. consider new mitigation activities that are required for structural economical changes, necessary to achieve the goals of the Paris Agreement;
 - ii. avoid identifying as climate mitigation finance activities that undermine the long-term temperature goal;
 - iii. provide greater granularity in the list of eligible activities;
 - iv. include additional specific criteria and guidance to promote greater harmonisation; and
 - v. take account of emerging international methodologies on sustainable finance;
- The Common Principles will be used for reporting on climate change mitigation finance in the MDBs' Joint Report on Climate Finance, which also links with the overall MDBs reporting on Paris alignment (BB5).



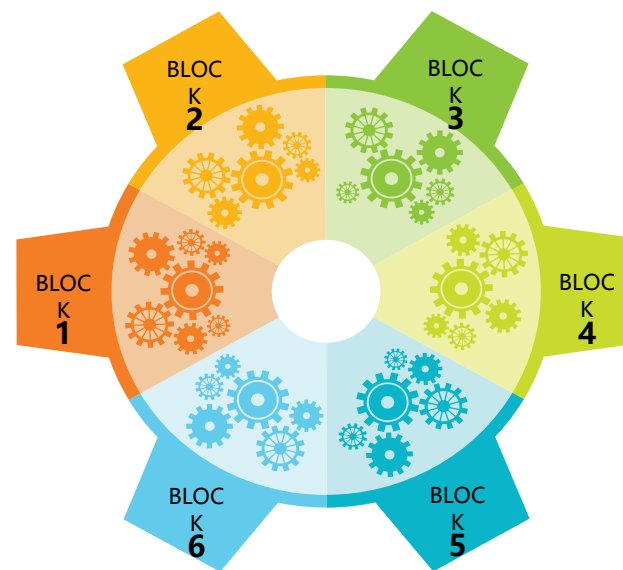
[LINK](#)

MDB Strategy, Engagement & Policy Development

Support to **countries, subnational entities, and non-state actors** in planning, policy development, and reform helps to enhance **institutional responses** to the transition, while increasing **private sector participation**

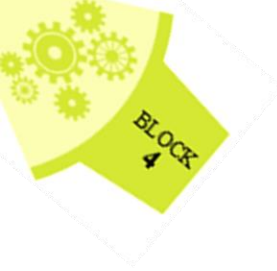
Despite the COVID-19 pandemic, in 2020, MDBs expanded support to developing robust NDCs & LTSs that are key to guiding green, resilient, inclusive recovery and advancing toward net zero emission goals.

- **Over 96 countries** received MDB support along the NDC and LTS cycle (more than 50% increase from 2019)
- **69 MDB engagements in 39 countries** to help develop LTSs, more than double from 2019.
- **15 MDB engagements** on Just Transition at regional and country levels, covering a variety of sectors.



BB4: Strategy, Engagement & Policy Development

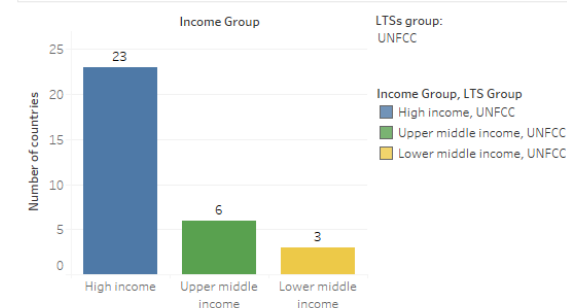
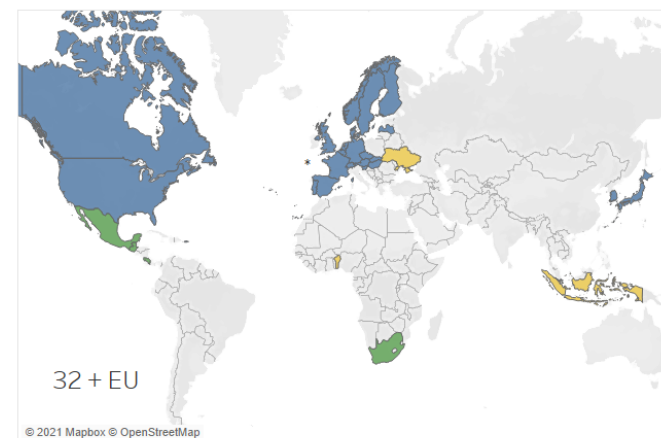
Develop new services to support clients put in place long-term strategies for low-emissions and climate-resilient development while ensuring consistency with Sustainable Development Goals (SDGs).



Long-Term Strategies to Guide a Green and Climate Resilient Transition

- LTSs are central to countries' long-term **national, subnational and sectoral** goals, and to guide near-term **investment decisions**.
- LTSs enable **pathways for decarbonization**, building climate resilience, avoiding **stranded assets**, and facilitating a **green and just transition** for the economy and society.
- LTSs also provide key **reference points** for countries' climate and development planning and policy reforms, including updates to nationally determined contributions (**NDCs**).
- MDBs have been working on supporting various LTS development efforts in many countries

Long-term Strategies Submitted to UNFCCC



Hungary	2021-09-17	■
Slovenia	2021-08-23	■
Indonesia	2021-07-22	■
Guatemala	2021-07-06	■
France	2021-02-08	■
Switzerland	2021-01-28	■
Denmark	2020-12-30	■
Korea, Rep.	2020-12-30	■
Austria	2020-12-11	■
Netherlands	2020-12-11	■
Sweden	2020-12-11	■
Belgium	2020-12-10	■
Spain	2020-12-10	■
Latvia	2020-12-09	■
Norway	2020-11-25	■
Finland	2020-10-06	■
South Africa	2020-09-23	■
Singapore	2020-03-31	■
Slovak Republic	2020-03-30	■
Costa Rica	2019-12-12	■
Portugal	2019-09-20	■
Japan	2019-06-26	■
Fiji	2019-02-25	■
Marshall Islands	2018-09-25	■
Ukraine	2018-07-30	■
United Kingdom	2018-04-17	■
Czech Republic	2018-01-15	■
Germany	2017-05-04	■
Benin	2016-12-12	■
Canada	2016-11-17	■
Mexico	2016-11-16	■
United States	2016-11-16	■



Principles for Long-Term Strategies (LTS)

Principle 1: Lay out a long-term vision for a decarbonized, climate-resilient future, with clear steps in the near and medium term to enable its achievement.

Principle 2: Link climate goals with the Sustainable Development Goals to maximize socioeconomic benefits and support a just transition.

Principle 3: Be aligned with the long-term goals of the Paris Agreement with clear arrangements to deliver short- and medium-term milestones towards the LTS objectives.

Principle 4: Integrate the adaptation and climate resilience goals of the Paris Agreement.

Principle 5: Cover key sectors and systems to capture their impact, interlinkages, and interdependencies under a range of plausible futures.

Principle 6: Ensure country ownership by facilitating the integration of long-term objectives into development planning and budgeting all across the government.

Principle 7: Develop an inclusive and transparent stakeholder engagement process, including on approaches to a just transition.

Principle 8: Ensure that there is appropriate institutional capacity to implement, monitor and update the LTS.



Just-Transition High-Level Principles

Principle 1: Aims to **deliver climate objectives while enabling socio-economic outcomes**, accelerating progress towards both the Paris Agreement and the SDGs.

Principle 2: Focuses on **moving away from GHG emissions-intensive economic activities through financing, policy engagement, technical advice and knowledge sharing**, in line with MDB mandates and strategies, and country priorities including NDCs and long-term strategies.

Principle 3: Encourages support for a just transition by **building on existing MDB policies and activities, mobilising other sources of finance, and enhancing coordination** through strategic plans that aim to deliver long-term, structural economic transformation.

Principle 4: Seeks to mitigate negative socio-economic impacts and increase opportunities associated with the transition to a net zero economy, **supporting affected workers and communities, and enhancing access to sustainable, inclusive and resilient livelihoods for all.**

Principle 5: Encourages **transparent and inclusive planning, implementation and monitoring** processes that involve all relevant stakeholders and affected groups, and that further inclusion and gender equality.



Takeaways and way forward (I)

- MDBs will continue to support countries to mobilize finance, build capacity, and provide knowledge and other support needed to implement and update their NDCs.
- MDBs will continue to collaborate and scale up efforts to bring climate to the heart of long term development planning and support in client countries as well as alignment of NDCs with long-term plans.
- As we continue to lead and innovate, our goal is to inform emerging Paris Alignment approaches both by public and private investors, and other development partners.



Takeaways and way forward (II)

- Accelerating support to countries and other clients to establish **LTS and Just Transition** approaches can link **shorter-term policy and investment** priorities by:
 - » Enabling **phase out of GHG-intensive technologies** by removing social barriers that prevent transition;
 - » Helping to **resolve data gaps** at country and sector level and set up realistic country-driven strategies on how and when to exit from certain technologies, fuels, or markets;
 - » Reducing **transition risks** and **unlocking economic opportunities** of green growth;
 - » Enabling an understanding of the **role of adaptation and resilience** and developing mechanisms to make adaptation projects financially attractive.

Transparency Framework for Paris alignment



Purpose

- Reporting on alignment of MDBs activities and financial flows.
- Setting joint principles and criteria.
- Enabling robust reporting within consistent framework.



Key Principles & Approach

- Building on existing practices from joint reporting on climate finance.
- Covering all building blocks.
- Considering international best practices e.g.:
 - ❖ NZBA approaches
 - ❖ Climate Disclosure Standards Board (2018)
 - ❖ The state of EU environmental disclosure 2020
 - ❖ Application guidance for climate-related disclosures (2020)
 - ❖ TCFD 2019 recommendations.
 - ❖ TCFD 2021 Status Report.
 - ❖ TCFD 2021 Annex.
 - ❖ TCFD: Guidance on Metrics, Targets, and Transition Plans 2021.



Joint Principles for reporting

- Reporting on an annual basis, ex-ante on basis of commitment for new operations;
- Reported financial flows are derived from the BB1 and BB2 assessments. Financial flows not assessed or with a non-conclusive assessments will be noted.
- Reporting will become more granular and comprehensive, with portfolio considerations where appropriate, over time.

Paris Alignment Reporting Elements



Governance and Processes

MDB Processes

MDBs climate policies, strategies and objectives

MDB Risk Management

How climate risks and opportunities are integrated into risk management processes

Conformance and Assurance

As required by financial auditing



Key Principles & Approach

BB1 and BB2

- Sources of climate impacts
- GHG impact metrics (BB1)
- Climate resilience impact metrics (BB2)

BB4

Indicators to disclose climate contributions from policy dialogue activities

BB6

- Sources of climate impacts
- Impact metrics of MDB internal activities



Joint Principles for reporting

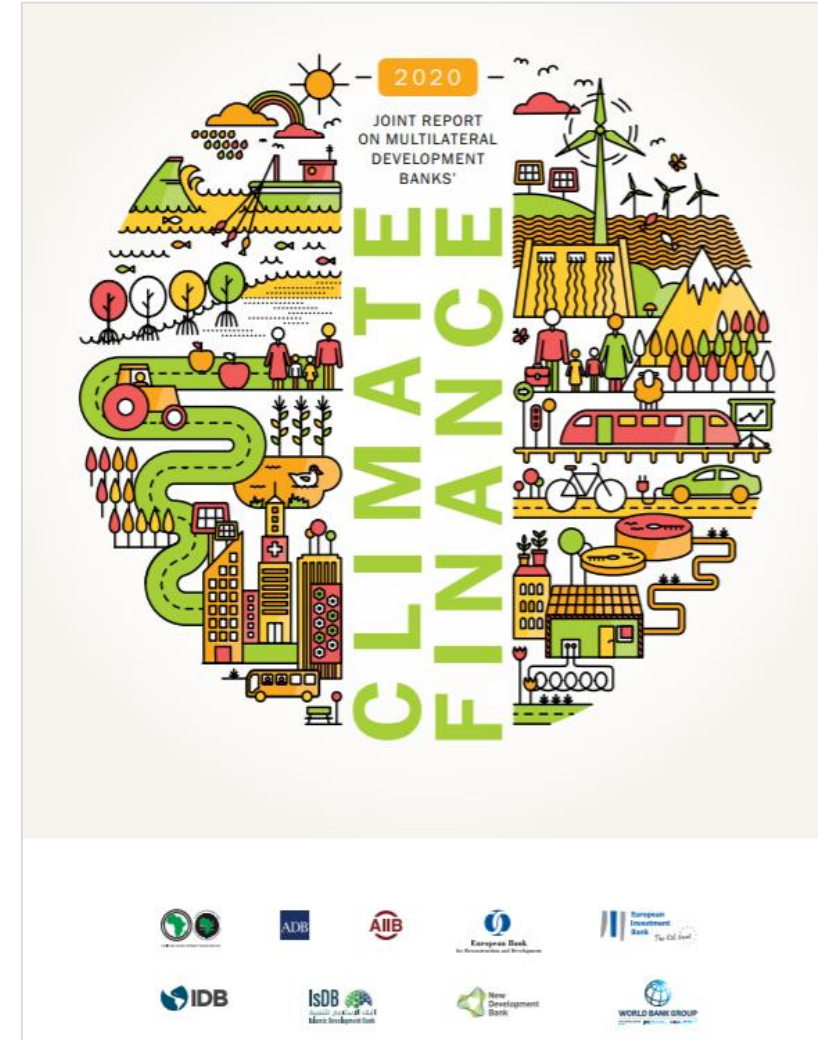
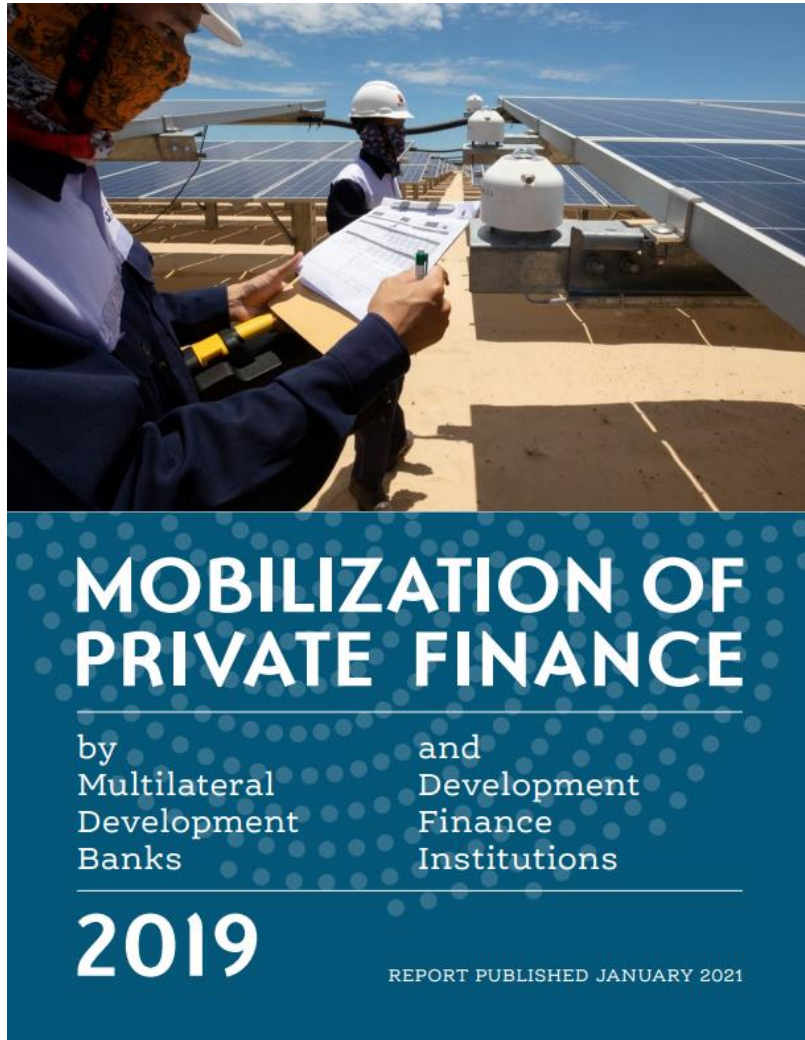
Methodologies and tools

- Climate analytics and data management
- Methodologies for scenario analysis
- Specific tools used e.g. low carbon pathways or carbon shadow pricing

Analysis and Benchmarks

- Climate performance benchmarks and indicators

Case studies & best practices of MDBs Disclosure



BB6 – MDBs Internal Alignment

- The overall objective for aligning the MDBs' internal activities to Paris Agreement is twofold.
 - ✓ **Internally**, this alignment process should contribute to the achievement of the internal MDBs commitments by enhancing the effectiveness of their safeguard, corporate, climate change and green growth tools.
 - ✓ **Externally**, this process aims also at ensuring that the MDBs' practices and investments meet their external commitments *vis-à-vis* the Paris Agreement Goals.
- Following a stocktaking exercise conducted amongst the MDBs, six key potential key areas for further work were identified

On-going Alignment of Internal Activities

Recap of scope and examples of MDB best practices

1



BUILDINGS

Buildings (e.g. heating, electricity, waste production, water)

2



MOBILITY

Staff commute, fleets and flights

3



PROCUREMENT

Procurement - Works, goods and services

4



TREASURY

Treasury - Management of MDB capital, retained earnings and borrowed funds

5



PENSION

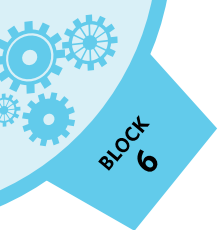
Management of capital for pensions

6



GOVERNANCE

Governance – Policies and strategies in place to ensure Paris Alignment in internal operations



Setting up targets and examples of KPI

MDBs need to decarbonize their internal activities as soon as possible, by 2050 at the latest, with interim targets, milestones, and key performance indicators.

Potential Activity/Key performance indicators for further MDB work:

Reduction of GHG emissions linked to building facilities through GHG emissions sectoral targets (e.g. energy usage): Total energy consumption and share of renewables in energy consumption (including from the grid), emissions for buildings (Energy Use Indicator). Buildings certified to international standards.

Reduction of GHG emissions linked to staff mobility: Total distance travelled by plane, modal split of employees' commute, share of electric vehicles in company fleet, transport emissions.

Reduction of GHG emissions linked to MDB procurement: Emissions from the production and transportation of purchased goods, emissions attributed to purchased goods and services, overall emissions from MDB suppliers, percentage of goods purchased and/or produced locally, of goods from circular products and services, of goods certified green, of operational waste recycled, of carbon price included, of suppliers sensitized to GHG emissions reduction good practices, % of suppliers with climate action plans aligned with Paris Agreement.

Management of climate related risks investments and treasury operations investments by treasury and pension funds: Does the treasury investment strategy include climate considerations (Y/N): Is treasury using a system or tool to assess climate physical and transition risk?

Develop a comprehensive climate change and green growth policy strategy and action plan: Reduction of the MDB GHG emissions reported through the EMS/Sustainability reports/ Corporate Responsibility reports.

Current Practices Among MDBs

MDBs can build on existing tools and processes (e.g., environmental standards and GHG footprint exercises) but some do not prescribe a Paris aligned level of effort. State of play (current) and areas of future work:

“Cross cutting approach”: Most of the MDBs developed/are developing: a Corporate Strategy based on Commitments → a GHG assessment protocol with specific targets.; a GHG assessment tool to measure achievements; a GHG emissions report through GRI reports (sustainability report for instance).

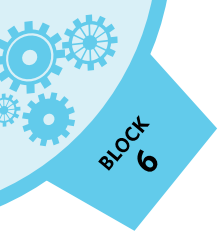
“Buildings”: Most of the MDBs strive for complying with international standards (LEED, ISO 14001, Energy Star Certification) at Headquarter level as well as country level.

“Mobility”: The implementation of Travel Protocols, in line with the internal Environmental Management System and/or the Bank’s strategic response to climate change and included within the broader GHG assessment protocol through specific targets, appears as a good practice.

“Procurement”: The MDB’s Procurement Service is responsible for the alignment of the internal procurement activities. A set up of specific aligned procurement practices/guidelines appears as a good practice.

“Pensions/Treasury”: Some MDBs developed specific financial instruments for financing environmentally sustainable initiatives, mainly Green and Social Bond programs and Sustainability Bond Guidelines.

“Governance”: All MDBs developed or are developing a strategic response to ensure Paris Alignment in internal activities. The EIB Climate Strategy, ADB Strategy 2030 or EBRD’s Green Economy Transition Approach are environmentally ambitious in that sense.



Best Practices Among MDBs (II)

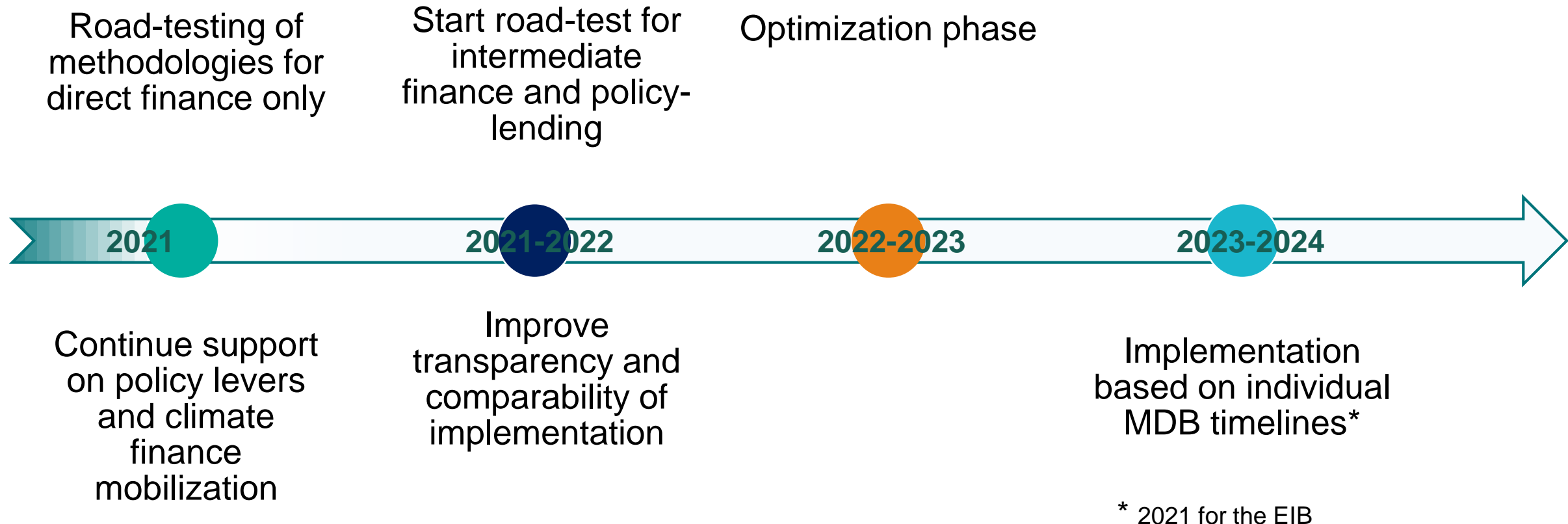
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MDBs are moving ahead on implementing the Paris Alignment Approach



Towards 2022/COP27...

- BB1 & BB2 – Continue to trial and improve our PA methodologies; pilot/trial approaches for PBL:
- BB3 – update of adaptation methodology; focus on mobilising of private finance for climate action;
- Pilot transactions under Article 6;
- Strengthen client support by enhancing MDBs cooperation on NDCs, country and other clients' Long Term Strategies, and Just Transition activities;
- Further develop MDB transparency framework on Paris alignment of financial flows;
- Trial internal alignment approaches
- Work with partners to transfer knowledge on Paris alignment to enhance comparability & consistency;

Upcoming joint MDB events at COP26

Title	Date	Time
<i>MDB Support for a Just Transition – From Common Principles, to Policy Support and Finance for a Just Transition</i>	4 November	ALL TIMES: 12:15 – 13:15 (GMT)
<i>MDB Support for Long Term Strategies Update on LTS Principles & MDB Country Engagements</i>	5 November	
<i>Management of Physical Climate Risks in Projects and Adaptation Plans/Strategies – Lessons from MDBs</i>	8 November	
<i>Gender-smart climate finance: unlocking an inclusive and sustainable future</i>	9 November	
<i>Cities, climate change and MDBs: cooperation, action and delivery</i>	11 November	