

# Joint Expert Workshop on Paris Alignment

on the sidelines of the UN Climate Action Summit

24 September 2019 – New York City



Convened by the Climate Action in Financial Institutions Initiative



in partnership with the International Development Finance Club (IDFC) and the group of Multilateral Development Banks (MDBs)



with support from the European Climate Foundation



*As part of a series of workshops, which started at COP24 in Katowice, the Climate Action in Financial Institutions Initiative organized on the margins of the UN Climate Summit in New York in September 2019 an expert workshop on Paris Alignment in partnership with the International Development Finance Club (IDFC) and the group of Multilateral Development Banks (MDBs), with support from the European Climate Foundation (ECF). More than 80 experts on the topic of alignment from the financial institutions and research community participated in these discussions.*

**Discussions were conducted under Chatham House rules. Detailed summaries of introductory comments and presentations are included in this Summary. It then presents an overview of the key areas and points that were raised in discussions without attribution to individuals or institutions. The final section of the summary lists the key questions for further discussion moving forward.**

### **Welcome & Introduction**

**Ian Cochran, Head of the Secretariat, Climate Action in Financial Institutions Initiative**, welcomed participants in the workshop on behalf of the organizers. He briefly presented the Climate Action in Financial Institutions Initiative. Launched in 2015 concurrent to the adoption of the Paris Agreement, it now gathers 44 public and private financial institutions to move forward in mainstreaming climate change in their operations. He highlighted that the topic of alignment is one of the main areas of work of the initiative and that the network is pleased to welcome experts from the broader climate and finance community and to offer a space to advance on this specific topic.



**Patrick Dlamini, Chief Executive Officer, Development Bank of Southern Africa** delivered the first keynote speech highlighting the importance of expanding the shared knowledge base on Paris Alignment and welcomed the study conducted by I4CE and CPI. He stressed that development financial institutions have to be active on this agenda and to engage with and support countries in the just transition to a low-GHG climate-resilient development. He also noted that financial institutions will have to reflect progress at COP25 and COP26 in order to demonstrate and ensure that they are collectively taking the right steps and helping each other to do the right things.

**On behalf of the group of Multilateral Development Banks, Preety Bhandari, Director of the Climate Change & Disaster Risk Management Division of the Asian Development Bank** highlighted the value of the Climate Action in Financial Institutions Initiative in offering the possibility and a platform for both public and private financial institutions to exchange on methodologies, find areas of convergence but also identify key challenges. She framed alignment as a ‘journey’ institutions have embarked on together with high level aspirational goals. She concluded her introduction with an explicit point of optimism, indicating that she was confident on the chances to achieve these ambitious goals. She stressed that by COP25, the group of MDBs will be presenting its work and how far they made progress.

## SESSION 1: What points of convergence and divergence can be identified across emerging frameworks from the Research & Civil Society Community?

**Jens Sedemund, Head of Environment and Climate Change of the OECD Development Co-operation Directorate** moderated the first session. He pointed out that the OECD is currently conducting a similar research project on Aligning Development Co-operation and identified clear convergences with the I4CE-CPI study on how to define alignment in theory and practice. He noted two key introductory points:

- Alignment will have different implications for public and private institutions;
- Alignment is not necessarily about increasing the volume of resources, but about systematically making operations consistent with the Paris Agreement.

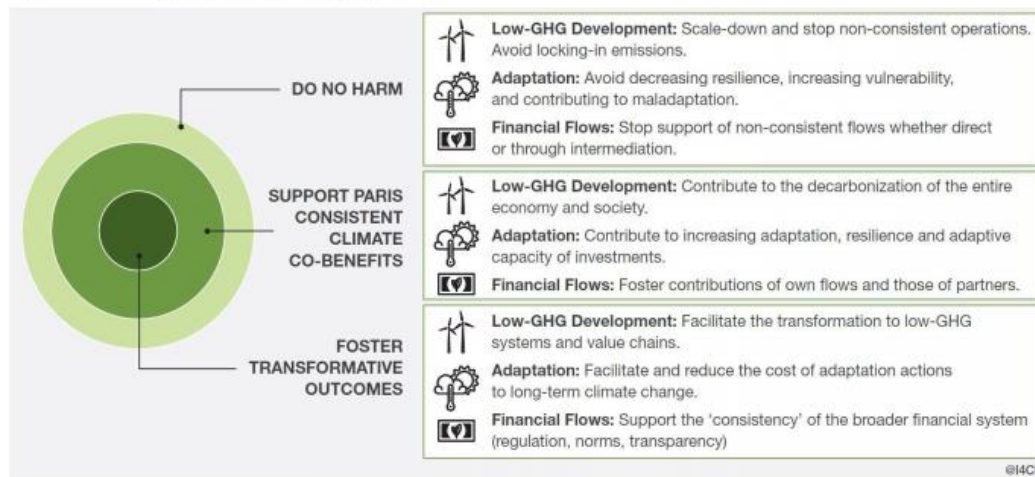
The first session started by a joint presentation of the research project conducted by I4CE and CPI with support from ECF and IDFC [Aligning with the Paris Agreement](#).<sup>1</sup>

### **What does Paris Alignment mean?**

Based on an analysis of the Paris Agreement, **Ian Cochran, Senior Advisor, I4CE**, presented I4CE's framework for defining Paris Alignment, applicable to all types of entities – including financial institutions. The framework specifies three dimensions for action:

- A Comprehensive Scope of Action
- A Long-Term Time Horizon to Guide Impact
- An Ambitious Scale of Contribution:

Figure 1: The Paris Alignment 'Bulls Eye': actively support national and international transformations across all activities



Source: I4CE

<sup>1</sup> Part 1: Cochran, Ian and Alice Pauthier (2019). A Framework for Alignment with the Paris Agreement: Why, What and How for Financial Institutions? I4CE: Institute for Climate Economics, Paris.

<https://www.i4ce.org/download/framework-alignment-with-paris-agreement-why-what-and-how-for-financial-institutions>

Part 2: Clark, A., J. Choi, B. Tonkonogy, V. Micale, and C. Wetherbee. 2019. Implementing alignment with the Paris Agreement: Recommendations for the members of the International Development Finance Club. Climate Policy Initiative.

<https://climatepolicyinitiative.org/publication/implementing-alignment-recommendations-for-the-international-development-finance-club>

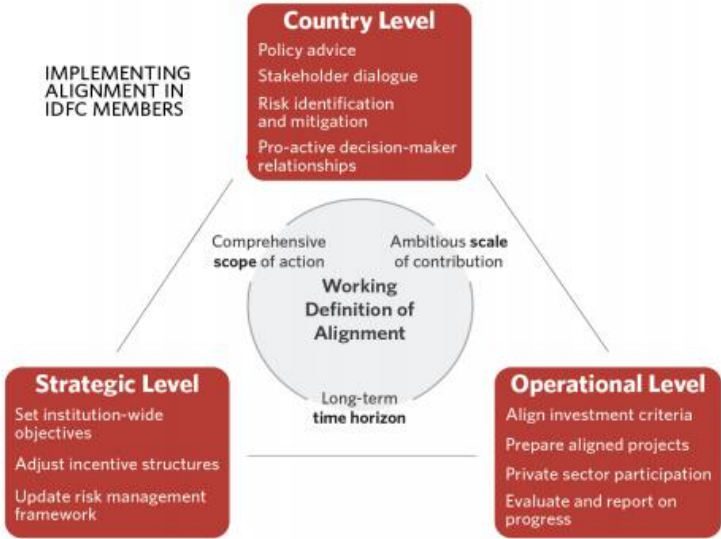
In addition, the framework includes the need to take into account national contexts and support shared pathways or ‘visions’ of how long-term climate goals could be met nationally and internationally.

Ian Cochran concluded with a presentation of the need to use this framework to assess both ‘upstream’ strategic and governance considerations, as well as ‘downstream’ assessment and decision-making processes. He noted that existing practice – such as both concepts included in the TCFD risk management guidance as well as the 5 Voluntary Principles for Climate Mainstreaming – can serve as a basis for alignment to build on.

**How to align with Paris?**

**Bella Tonkonogy, Associate Director and Alex Clark, Analyst, CPI,** presented CPI’s report on *Implementing Paris Alignment for DFIs: Focus on the IDFC*. They first highlighted that members of the IDFC, 24 national, bilateral, and regional development finance institutions with more than USD 4 trillion in assets under management, can play a critical role in supporting the economic transformation of their countries of operation towards Paris alignment. Then, they presented how IDFC members can implement Alignment across three levels and provided key examples of emerging practices to build on:

Figure 2: Recommendations for implementing alignment



Source: CPI in collaboration with I4CE

They concluded by highlighting that alignment of IDFC members, individually and collectively, will not be easy, and it will take time – and therefore it should start now. They noted that:

- IDFC members 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.
- IDFC members 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.

## SESSION 2: What points of convergence and divergence can be identified in Emerging Practice on Paris Alignment?

**Moderator:** *Romain Ioualalen, Program Associate 2050 Pathways Platform / European Climate Foundation*

### ***Progress and Insights from Practitioners.***

In Session 2, financial institutions and Practitioners provided an update on their progress on defining Paris Alignment and the impacts on their strategies and operations.

- **Alexandrina Platonova-Oquab, Climate Change Group, World Bank & Amal-Lee Amin, Chief of the Climate Change and Sustainability Division, Inter-American Development Bank**, provided an update on the progress made in further developing the [MDBs' Alignment approach](#). They provided a specific focus on the progress made in three of the six building blocks:
  - **Mitigation and Adaptation.** For both building blocks, the current approach under consideration for new direct lending operations is relying on a multi-criteria assessment framework including the use of decision-trees. The MDBs aim to develop a consistent approach on mitigation and adaptation. MDBs and IDFC indicated that as part of their alignment work with the adaptation and resilience goal, they have been working and just released for consultation a [Framework for Climate Resilience Metrics in Financing Operations](#).
  - **Engagement and policy development support.** MDBs noted that this building block is central in this alignment process. Advancing on this building block, MDBs aim to develop joint principles to support countries to design and implement long-term low-emission climate-resilient strategies.

MDBs will present progress made on the development of their approach at COP25.

- **Damien Navizet, Head of Climate Division, French Development Agency** presented the case of the AFD as an example of how an IDFC member can move forward in implementing the [IDFC Alignment Principles released at COP24](#). AFD's work started on climate finance and climate mainstreaming 10 years ago. Building on this existing work, in 2017 AFD committed to be "100% Paris". In 2017, their entire portfolio was already screened, but the Paris alignment process helped the institution progress or identify areas for further progress in terms of the time horizon of impact that they seek to have, as well as the scale of contribution of their projects. AFD adopted a project-by-project approach that attempts to take into account as much as possible the national context and pathways of countries and aims to increase the contribution of projects to climate objectives. Beyond its own operations, AFD has engaged with other actors on the topic of alignment.
- **Daisy Streatfeild, Investor Practice Programme Director of the Institutional Investors Group on Climate Change** presented the ongoing [Paris Aligned Investment Initiative](#). This project aims to:
  - 1- **Develop definitions for key concepts** relating to alignment of portfolios with the goals of the Paris Agreement and build consensus around these among investors.
  - 2- **Analyse potential approaches and methodologies** that could be used to assess alignment of different asset classes, to provide a menu of practical options for assessing and achieving alignment to Paris.
  - 3- **Enable investors to understand the implications** of transitioning portfolios by testing the approaches and methodologies for transition using real world portfolios to analyse financial characteristics, risks and opportunities associated with transition of portfolios.

The project aims to produce the following outputs:

- A framework for Paris Alignment, including definitions relating to Paris Alignment; describing pathways for Paris Alignment based on emissions, technology and economic scenarios; and outlining the range of potential methodologies and approaches that could be used.
- An assessment of relevant methodologies and approaches for 4 asset classes: sovereign bonds, listed equity, corporate debt and real estate. IIGCC will also assess the potential for increasing alignment through strategic asset allocation approaches and may include further asset classes over time.
- Testing of the most relevant methods and approaches for aligning portfolios using up to 5 real world portfolios, forecasting implications of aligning to Paris over time against key financial metrics relevant to investors.

IIGCC currently has focused principally on the temperature goal with the aim to both achieve decarbonization of investments and increase investments in climate solutions at the scale needed.

They are currently in the process of analyzing the methodologies and approaches that are currently available. They aim to finish their process by mid-2020.

### **Key Highlights of Discussions in Sessions 1 & 2:**

#### **➤ Common Conceptual Framework and Methodology:**

- Some participants highlighted an urgent need to develop a common methodology on Paris Alignment, giving the example of the [joint MDB-IDFC Common principles for climate finance tracking](#). However, they mentioned that it will be important to go beyond public financial institutions and to develop a common methodology of use for private and commercial institutions. Ensuring its robustness will require involving as many different institutions and actors in its development as possible.
- A number of participants noted that the I4CE and CPI framework presented is a useful contribution to this process. One of its strengths is that it has returned to the Agreement itself to identify and define the dimensions of Paris Alignment.
- MDBs noted that what was presented by the research community is conceptually useful. However, it does not go far enough to provide a direct contribution to discussions moving forward on the complexities of operationalising Paris Alignment.
- All participants seemed to agree on the need to collaborate on this issue and to further engage with the commercial banks. It was noted that Alignment is currently a buzzword within the private financial community and there is therefore an opportunity to see how to link efforts and activities.
- The think-tank and NGO community raised whether it could be feasible and useful to transform I4CE-CPI study into a joint commitment around a shared definition of the dimensions of Paris Alignment.

#### **➤ Internal Socialization of Paris Alignment**

- The challenges of socializing Paris Alignment across an entire institution was noted.
- Some institutions noted that it is at time difficult to engage with internal teams on the topic of Paris Alignment. A number of participants voiced the importance to have relatively “simple” materials as it is challenging to disseminate to everyone what alignment is, why it is required, and what are the implications for strategic orientations and internal procedures. They indicated that I4CE and CPI’s figures and graphics have the potential to be useful in this process.
- Institutions flagged the difficulty in engaging with colleagues whose activities may be ‘misaligned’ with the Paris goals and may see their activities scaled down or halted.

- **Scope of Coverage of New Activities vs. Existing Portfolios**
  - The question of whether financial institutions should focus on new flows and commitments or on existing portfolios sparked discussion.
  - The MDBs noted that they have decided to focus principally on new flows, but also recognize that they should take into consideration the duty to engage with existing clients to inform them about their physical and transition risks.
  - Furthermore, the issue of indirect and intermediated financing continues to pose challenges in terms of alignment. Multiple public institutions indicated that this is an important issue that requires attention.
  
- **Do No Harm**
  - The think tank and NGO community highlighted the need to ensure “doing no harm” across all scenarios.
  - Participants noted that the definition of harm will vary from country to country depending on their long-term trajectory and national plans. Institutions stressed that it is important however for national plans and scenarios to be themselves consistent with the long-term climate objectives.
  - Similarities were noted with forthcoming OECD work and the EU Taxonomy that includes the concept of ‘no significant harm’.
  
- **Positive Contributions to Long-Term Climate Objectives**
  - Many participating institutions agreed that it is important for an aligned financial institution to go beyond doing no harm to also make direct contributions to achieving the long-term climate objectives.
  - On the mitigation aspect, some institutions highlighted the need to move from a ‘relative’ thinking to an ‘absolute’ thinking through scenarios of what absolute emission levels are acceptable across sectors and countries.
  - Many of the institutions around the table recognized the need for ‘transformational’ contributions, particularly from public financial institutions who have direct mandates to support international and national climate action.
  - MDBs mentioned that the concept of transformation or transformational finance is not a subject of climate finance alone, and that it must be understood much more broadly.
  - Some institutions critiqued what appears to be an ‘artificial’ differentiation in the proposed I4CE-CPI framework between actions producing ‘incremental’ Paris-consistent climate co-benefits and those leading to ‘transformational outcomes’. The authors clarified that it could nevertheless be of use conceptually to note that certain actions can have broader systemic actions (market creation, demonstration effects) than others. Furthermore, while a number of public financial institutions are already focusing efforts on transformational outcomes across their activities, this is not necessarily the case for all institutions.
  
- **Connections with National Plans and Long-Term Strategies**
  - Several institutions highlighted the need to contribute to both long-term objectives, and near-term national plans to take into consideration national circumstances and pathways.

- Many noted the complexity to do it in practice, with one of the challenges being the insufficient guidance provided by national plans and long-term strategies at this stage both in terms of detail and ambition and highlighted that “they can’t be Paris aligned with something if this something is not certain”. A need for stronger signals on national long-term strategies was highlighted several times to provide collective guidance on a country’s expected response to climate change and possible/probable low-GHG climate-resilient pathways.
- The role of DFIs in supporting countries in creating and revising plans and scenarios was noted, being specifically referred to in both the MDB Building Blocks and IDFC Principles.
- Financial institutions identified the importance of working together to see how to better connect internal procedures and risk management with long-term strategies and trajectories. Shared guidance could be of use on the methodologies and how to combine them with the different other ongoing processes on risk management, application of taxonomies, etc.
- The question was raised of whether an international organization such as the International Monetary Fund should be charged with working with countries to produce common long-term trajectories that could be used as a signal for all institutions seeking to align their activities. This could be similar to existing Article 4 Consultations conducted by the IMF on economic health.

➤ **Role of Development Finance Institutions in Supporting Alignment**

- Participants noted that DFIs have specifically a role to play in working with and supporting countries in developing low-GHG climate-resilient development pathways and near-term national plans. They are already often working across ministries in countries to support policy change and support national ambition. It is increasingly becoming clear that in this engagement it is essential that the concept of the ‘just transition’ is integrated, identifying and addressing head-on the social and economic impacts in addition to ‘least cost’ mitigation and adaptation option. How can they support a broad stakeholder dialogue at the country level?
- Some highlighted the need for public finance to only (or as much as possible) focus on activities with transformative outcomes.
- The point of ensuring that public financial institutions are not ‘crowding out’ private finance was raised, particularly if there will be a substantial increase in volume of funding from these institutions seeking a limited pipeline of projects.
- The issue of DFIs to be in a position to absorb part of the risks related to the transition was raised. This can help better leverage private resources in some cases. However, this will most likely require that the shareholders of the DFIs are in a position to allow these institutions to take these risks.
- The think-tank and NGO community highlighted the need to change mandates of DFIs to specifically support Paris Alignment.

➤ **Connections between Alignment and the Sustainable Development Goals**

- Alignment with the Paris Agreement was presented as a first step to align with the SDGs.
- Overall, participants indicated that climate action should be consistent with sustainable development. Scenarios and pathways for countries to achieve both climate and broader sustainable development objectives help ensure this connection.



- Some institutions noted the need to further consider the trade-offs and synergies with other aspects of sustainable development, such as biodiversity.
  - Finally, the concept of ensuring that the transition must be a ‘just transition’ was present throughout discussions.
- **Need to Advance on ‘How’ to Evaluate the Alignment of Activities**
- Participants noted that discussions on alignment need to move beyond conceptual frameworks and focus on the ‘how’ and the nuances of evaluating the alignment of activities with the goals of the Paris Agreement.
  - The MDBs and other financial institutions have conducted extensive review of the literature and have analyzed the existing approaches on alignment. It is now important that institutions sit down together – both public and private – and advance on the question of how to put this into action in concrete terms.



## **CONCLUSION: The road forward**

- The Climate Action in Financial Institutions Initiative will organize a follow-up webinar on alignment to present the key outcomes of the workshop in mid-November. (If you are interested to participate, please send an email to [alice.pauthier@i4CE.org](mailto:alice.pauthier@i4CE.org))
- Discussions are currently underway to organize follow-up events at COP25 and/or in 2020.

## **Questions of Interest Moving Forward**

The discussions during the workshop confirmed that further work is needed on a number of the questions:

### **Questions Identified in the Run-Up to the Workshop:**

- Should financial institutions consider various “degrees” of alignment? What are the categories of alignment?
  - Misaligned/harmful
  - Aligned: neutral/contributing positively/transformational.
- How to define a sufficient and credible pathway at national/international scale? Which data/info can be used when pathways are not available?

- How to overcome the fact that NDC short term targets are not necessarily consistent with long-term low-carbon development; and in such cases are not taken as targets to contribute to in the context of Paris Agreement alignment strategies?
- How to ensure alignment for adaptation? What a resilient development looks like? What are the interplays between climate resilience and mitigation projects and activities that need to be reviewed and analyzed when ensuring meeting the objectives of the Paris Agreement?
- How to manage uncertainty when evaluating near-term actions in light of long-term trajectories? What role for long-term strategies?
- How to measure alignment of intermediary lending and stakeholders?
- How to manage the difficulties of demand-driven financial institutions in reorienting their activities to be consistent with low-GHG climate-resilient development pathways?

**Additional Questions Identified During the Workshop:**

- How do we reconcile low carbon pathways and climate resilient pathways?
- How do we deal with assets that may need to be stranded early?
- How do we manage the diverging shareholders' positions and level of support for the work on Paris Alignment?
- How do we minimize the discrepancies between the developments in the financial sector and policy developments at country level?
- How to address projects with financial intermediaries, when there is no visibility for sub-projects, other than leveraging on climate corporate governance practices?

***Questions Raised at the MDBs & CSOs event "MDBs Working Together Towards Paris Alignment":***

- Should the PA alignment be about more than financial flows?
  - Should Paris Alignment also be about e.g. (intern)national policy and low carbon pathway development?
  - Should it include the management and disclosure of project climate change risks (physical and transition)?
  - Should it include SDGs and energy access/poverty?
  - How does Paris Aligned finance relate to climate finance?
- Which financial flows should be included in Paris Alignment?
  - Should it include the whole portfolio, including different instruments and intermediated lending?
  - Should each activity actively contribute to the PA? Or should the aggregate annual investments be Paris Aligned?
- How to determine which activities are Paris Aligned and which are not?
  - Can project emissions be used? Use qualitative/quantitative criteria, such as alignment with NDCs?
  - NDCs are not per definition Paris Aligned. How to assess whether they are?
  - Can risks form the basis for Paris Alignment criteria?
  - How much data is required? How much effort would this take?
  - How to monitor progress? How to communicate effectively?