

# Principles for Paris-Alignment and Climate Finance in Development

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As ministers and officials meet in the coming year, they will make new financing commitments on climate and promise to ensure all of their activities are “Paris-compatible”—against the backdrop of a global pandemic. Any new commitments on climate finance will need to balance existing development challenges with the pressing need to tackle climate-related risks. This note outlines a set of principles to guide climate-related commitments so that they do more for both climate and development.

At the heart of the Paris Agreement is a shared belief that the world must move together towards a common goal. The participation of lower-income countries is necessary, even if it is to help solve a problem created by an industrialization process that many are yet to experience. The Paris Agreement recognizes “[common but differentiated responsibilities and respective capabilities, in the light of different national circumstances](#),” and includes commitments on the provision of finance to developing countries to help them meet their climate goals. If high-income countries do not meet those commitments, the collective spirit of the Paris Agreement will be undermined.

For high-income countries then, we propose the following principles:

## 1. PARIS-ALIGNMENT IN DEVELOPMENT FINANCE

While there is no one formal definition of Paris-alignment,<sup>1</sup> all investment, whether development or otherwise, will need to adjust for the move to a low-carbon world, and for the impacts of climate change already under way. In order to play their part in this shift and become “100 percent Paris-compatible,” development agencies and their partners will need to undertake three activities for all of their development programming.

First, they will need to consider the climate vulnerability and adaptation of their partners, and adjust their sectoral and country aid allocations in the light of revised needs and potential returns. This assessment will need regular updating with new information and should be undertaken jointly with

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<sup>1</sup> Previous work has suggested what it implies for development cooperation and DFIs (OECD, 2019; CPI, 2019; WRI, 2018; ODI, 2018) and the EU has published its Paris-Aligned Benchmarks.

partner countries, who in any case need to prepare an “assessment of climate change impacts and vulnerability”<sup>2</sup> under the Paris Agreement.<sup>3</sup>

At a broad level, least developed countries are **most vulnerable to the effects of climate change** due to factors such as **lower adaptive capacity** and their reliance on climate-sensitive sectors **such as agriculture**.

Second, agencies will need to review, and screen, all development activities<sup>4</sup> for their impact on mitigation and adaptation efforts, as well as potential cost-effective adjustments to reduce emissions or increase climate resilience. **Many are already doing so**.

In the case of adaptation, it is likely that much development activity is already helping partner countries increase resilience and adapt to climate change and may not need much, or any, adjustment. For example, basic health facilities will certainly increase climate resilience in terms of the consequences of extreme weather events or malnutrition, though perhaps the types of diseases treated may need to evolve. Screening can identify the areas—like agriculture, fishing, and biodiversity—more vulnerable to climate impacts that may need further adjustment.

For mitigation in existing projects, the screening process should consider if there are opportunities to use lower-carbon energy sources. These adjustments should be implemented only where it is cost-effective to do so, as is the case in high-income countries. Lower-income countries, like high-income countries, will need to rely on some carbon-intensive activities as part of the development process, but development agencies should ensure that, as prices fall on renewable solutions, these are incorporated. Donors should avoid expensive mitigation adjustments on projects that could undermine the project’s main objectives, or adjustments that would rely on unrealistic expectations of the ability of partners to access low-carbon energy or production.

Third, donor projects in a country should align with that country’s own climate plans—particularly Paris-aligned **Nationally Determined Contributions (NDC)** and broader national development strategies, including on energy, land use, transport, and industry, even when these call for targeted investments in emitting projects. This approach will strengthen those plans and support the global agreement on climate. For many lower-income countries, emissions are very low, and for low-income countries as a group **renewables are already 76 percent of total energy consumption** (though this includes biomass). Considerably increased modern energy use will be necessary to meet the Sustainable Development Goals, including universal access to electricity and clean cooking. Paris alignment may well include some continued investment in fossil fuels, as is also the case in higher-income countries.

By taking these three steps, development agencies will have a Paris-aligned development programme. This should be recorded in three ways:

- the Rio Markers should continue to be used to record where a project is adjusted for climate (using the “significant’ marker), or where climate is the primary aim (“principal marker”)

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2 Relevant materials include UNFCCC reporting guidelines and adaptation measures based on IPCC’s Technical Guidelines for Assessing Climate Change Impacts and Adaptations and the UNEP Handbook on Methods for Climate Change Impacts Assessment and Adaptation Strategies.

3 Paris Agreement, Article 7, Para 9c, “assessment of climate change impacts and vulnerability, with a view to formulating nationally determined prioritized actions, taking into account vulnerable people, places and ecosystems.”

4 Including export finance and less concessional lending which may be led outside the development ministry.

- the **DAC should develop a new marker and associated standard** which confirms activities have been screened as per the three above areas by providers
- the DAC should develop a new marker and associated standard which confirms activities are consistent with a partner country's NDC.

## 2. ENSURE COMMITMENTS ON CLIMATE FINANCE ARE “NEW AND ADDITIONAL”

Since the original Rio Declaration in 1992, through Copenhagen in 2009 and Paris in 2015, there is a consistent recognition that fighting climate change requires “new and additional” resources from developed to developing countries to respond.

**As government ministers make climate finance commitments, these must be in addition to existing resources for developing countries.** For Paris compatibility, all existing and new development finance will need to integrate climate with development. So, commitments that merely earmark existing spending for climate activities are, at best, meaningless, and at worst diverting scarce aid away from immediate alleviation of extreme poverty. Any climate finance reported towards the \$100 billion target should be “new and additional,” meaning it is part of a total climate and non-climate financial resource flow above absolute levels of official or mobilized private finance to developing countries by that country prior to 2009 (or an alternative agreed baseline date).

The United Nations Framework Convention on Climate Change (UNFCCC) secretariat in Bonn is responsible for monitoring progress towards the \$100 billion target and should provide information in their bi-annual publications to enable assessments of whether climate finance is new and additional. Specifically, the secretariat should consider the baseline of total development finance<sup>5</sup> spent in 2009 (or alternative agreed baseline as appropriate). In addition, as co-chairs of the UNFCCC Conference of Parties (COP), Italy and the UK should discourage announcement of any commitments that are not above existing levels. As the COP starts work on defining a new collective target for 2025 onwards from “a floor of USD 100 billion per year,” it will need a much clearer baseline and definition to ensure transparency and trust.

## 3. PRIORITISE ADAPTATION IN ODA CLIMATE FINANCE

Where commitments are made from aid budgets, these should be focused on adaptation.

To date, 70 percent of total climate finance is on mitigation, and climate-related ODA is also predominantly mitigation-focused. The Paris Agreement requires “a balance” between adaptation and mitigation and least-developed countries negotiators are all clear that adaptation is the priority. Finance which is principally for mitigation is spent, and often achieves more in terms of emissions reductions, in middle-income countries, rather than the poorest countries. Further, and importantly, the beneficiaries of mitigation are worldwide, rather than just seen in recipient countries. For all of these reasons, new commitments should focus on adaptation.

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<sup>5</sup> As the target is articulated in terms of mobilising new and additional climate finance, the baseline should incorporate all public official finance. In practice, this consists of disbursements of bilateral official development assistance, other official flows including export credits and multilateral inflows. A recent CGD policy paper, *Is Climate Finance Towards \$100 Billion “New and Additional?”*, undertakes an initial assessment of this.

Mitigation projects can be prioritised within official development assistance (ODA) budgets when they are prioritised by partners, especially when connected to their NDC, but otherwise the default should be Paris alignment, and adaptation. Mitigation projects scored as ODA must abide by the standard for all ODA in that their main objective is the economic development and welfare of developing countries. This rule means that projects should have a significant development benefit for the recipient country beyond global impacts on greenhouse gas emissions.

Effective adaptation finance is that which does the most to increase partner countries' climate resilience. Effective adaptation may mean spending in areas like health, education, and transport, and prioritizing partners' [National Adaptation Plans](#). There is little value and considerable complexity in attempting to disentangle adaptation from development more generally; as a general rule, effective development assistance is effective adaptation support.

#### 4. MITIGATION: STEP UP RESULTS REPORTING AND EVALUATION

Projects with climate mitigation as their primary goal amounted to over \$10 billion in aid per year, and more in wider development finance, but there is little evaluation of these projects. In over 3,700 impact evaluations in [3ie's repository](#), just eight are tagged with "climate mitigation." Building on the model of the Green Climate Fund and Clean Technology Fund, all agencies should consistently report expected emissions results from mitigation projects in order to ensure the evidence-base needed to evaluate the effectiveness and impact of climate mitigation spending.

Agencies undertaking principal mitigation projects should ensure every project quantifies six distinct elements, with a seventh element for projects that involve public-private partnerships. Four elements are directly related to the project itself:

1. estimated (ex ante) emissions averted
2. actual (ex post) emission averted
3. final (ex post) emissions averted, and
4. cost of mitigation measures and full project cost.

In addition, as the primary aim of this finance is to catalyse transformations in the sector, and in recipient country's wider emissions pathway, projects should estimate

5. averted emissions the project could catalyse, and
6. a probability to create an "expected" value.

Finally, in projects that include private sector participation, donors should report

7. the size and grant element of agency finance and other public finance.<sup>6</sup>

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<sup>6</sup> The transparency framework under the Paris Agreement to be agreed upon will be important here in addition to the Taskforce on Climate-related Financial Disclosures of the private sector.

These efforts fit with the Paris Agreement [transparency framework](#), would ideally be consistently implemented and collated across agencies (see below), and consistent with wider investment efforts (including the [Task Force on Climate-related Financial Disclosures](#)).

Mobilizing and catalysing private finance is a key consideration in addressing climate change. In using public money, agencies will need to be clear about how that money leads to additional climate-related benefits. With efforts throughout the private and financial sector on defining “green” standards (for example, on green bonds<sup>7</sup>), there will need to be coherence between the public and private approaches on measurement, definitions, and standards.

Finally, as mitigation is a global public good, lessons should be transferable. Approaches to evaluating and measuring mitigation need a clear and consistent basis of calculation aligned across multilateral and bilateral agencies.

Climate finance providers should create a “**climate finance impact observatory**” to

- monitor, collate, and synthesise results consistently,
- coordinate with private bodies on finance standards,
- and share learning on improvements.

This is a new function that should build on existing entities with a relevant role (including the OECD) but should be open to all countries.

## 5. LEAD BY EXAMPLE AND ENSURE POLICY COHERENCE

While current and future emissions growth is concentrated in (richer) developing countries, high-income countries are responsible for the majority of existing stocks of greenhouse gasses and still emit some [11.3 tonnes of carbon dioxide \(CO<sub>2</sub>\)](#) per person per year. To limit warming to 1.5 degrees per the Paris Agreement, this will need to fall to under one tonne per head by 2050, and the underlying technologies involved will need to be shared with the world. The first priority in tackling climate change for high-income countries must be creating and scaling the technologies to ensure that low-carbon development paths are the most cost effective for all countries.

As well as supporting this goal in their own operations, development agencies can monitor and influence their own government’s contributions that affect international development. This should include emissions per head, the level of research and development and technology sharing, subsidies and price of carbon, agricultural subsidies, and financial (and climate) transparency in private investment. Some of these are assessed in the [Commitment to Development Index](#), though national-level monitoring can be more granular.

Trade is particularly important to development and will also be used to incentivise Paris compliance. Countries are considering tariffs, or other import restrictions, on countries whose policies do not sufficiently address emissions. The need to create incentives is a sound one, but these policies will need to keep in mind potential damage to development and should include exemptions for those countries whose emissions per head are fractions of those in high-income countries.

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<sup>7</sup> For example, see a recent CGD policy paper by Alexander Lehmann, *Private Sector Climate Finance After the Crisis*.

## CONCLUSION

Climate change is a problem that has been very largely created by industrialized, high-income countries but will impact poorest countries the most. High income countries will need to ensure their emissions per head fall as the Paris agreement envisaged and that the technology to achieve that is shared widely. For development agencies, all existing funding and activities will need to be 'Paris-aligned' to consider the risks of climate and take advantage of lower carbon development paths where affordable. High income countries need to make good on their commitments to provide additional resources to lower income countries for climate; and ensure those resources are focused on the priorities of lower income countries, particularly adaptation. For mitigation spend, evaluation and results reporting must be significantly improved to ensure the evidence-base to reduce emissions effectively. We intend the above principles to ensure donor countries respond effectively to both the challenges of climate change and extreme poverty.



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