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World Bank Paris Alignment Method for Development Policy Financing

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Background and Scope of this Document

1. This document details the World Bank's (WB) Paris Alignment (PA) Method that serves to assess WB **Development Policy Financing Operations** (DPFs) for their alignment with the goals of the Paris Agreement.

2. This Method comes alongside other Instrument Methods for Investment Project Financing (IPF) and Program-for-Results (PforR) financing. Sector Notes complement Instrument Methods by explaining how Instrument Methods are applied for sector-specific issues. Instrument Methods and Sector Notes will be updated over time to reflect lessons learned in aligning WB financing operations with the goals of the Paris Agreement.

3. The definitions of key terms used are provided in the Glossary (Annex 1).

The WB Paris Alignment Commitment

4. **Paris Alignment means, with respect to WBG financial support for any country, public or private sector entity, as applicable, that new financing flows and guarantees provided by the WBG will be consistent with the objectives of the Paris Agreement and with a country's pathway towards low greenhouse gas (GHG) emissions and climate-resilient development.**[1] For these purposes, Paris Alignment is considered and assessed in the broader context of the WBG's Twin Goals, taking into account, among other things, equity concerns and the principle of common but differentiated responsibilities and respective capabilities, in light of countries' different national circumstances.

5. Integrating climate and development is a pillar of the WBG's Climate Change Action Plan 2021–2025 (CCAP). As part of the CCAP and the 2018 MDBs' Joint Declaration, the WB has committed to align its operations with the Paris Agreement goals. This commitment applies to all financing operations approved by the WB Board from July 1, 2023.

6. The Paris Agreement's stated aim is to "strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty." To achieve its objective, the Paris Agreement includes, in its Article 2.1(c), the goal of "**making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.**"[2]

7. A core assumption underpinning the Bank's Paris Alignment Commitment is that countries have flexibility in defining their own contributions to the overarching goal of the Paris Agreement. This is consistent with one of the fundamental principles of the Paris Agreement, which recognizes that countries have different needs and circumstances in integrating climate and development; that peaking of GHG emissions will take longer for developing countries (Art. 2.2., 4.1., and 4.3.); and that each country has common but differentiated responsibilities and respective capabilities in the context of their different national circumstances (Art 4.3). Nationally Determined Contributions (NDCs), Long-term Strategies (LTSs), and National Adaptation Plans (NAPs) are key Paris Agreement documents that communicate a country's vision for low-GHG emissions and climate-resilient development and set its overall direction of travel. In addition to submitting NDCs, countries are invited to put forward their mid-century visions for decarbonized and climate-resilient

[1] The WBG will align all new operations starting July 1, 2023 (FY24). For IFC and MIGA, 85 percent of Board-approved real sector operations will be aligned starting July 1, 2023, and 100 percent of these starting July 1, 2025.
[2] UNFCCC. 2015. "Paris Agreement." FCCC/CP/2015/10/Add.1. Paris: United Nations Framework Convention on Climate Change. http://unfccc.int/paris_agreement/items/9485.php. Art. 2.

pathways and relevant LTSs, integrating climate change and development. Countries have also agreed to periodically update their NDCs over time, with each successive NDC representing higher ambition, to reflect the evolving national circumstances and better incorporate the mid-century LTSs. Many countries are working to identify their low-GHG emission, climate-resilient development pathways, and the WB plans to continue to support them in preparing their LTSs and updating their NDCs.

8. The WB PA assessment is also linked to the NDCs, LTSs, and NAPs, recognizing that their overall ambition will continue to evolve to collectively pursue the mitigation and adaptation efforts needed to meet the goals of the Paris Agreement.[3] The World Bank PA assessment does not provide a judgment on a country's level of ambition, strategies, or priorities identified in its NDC or LTS.

9. An operation needs to be aligned across mitigation as well as adaptation and resilience dimensions to be considered "Paris-aligned." There are separate steps for assessing the alignment of operations with respect to (i) the mitigation and (ii) the adaptation and resilience goals. The outcome of a PA assessment for an operation is "aligned" or "non-aligned." All prior actions supported by the operation need to be assessed as aligned for the operation to be aligned. Non-aligned operations cannot be financed by the WB.

10. The Paris Alignment assessment is operation-, context-, and time-specific. That means that an operation which is assessed as "aligned" in a given context in a given country at a given time does not constitute an endorsement of similar operations elsewhere where the context may be different. Teams are expected to carry out the assessment using the information and tools at their disposal. The outcome of the assessment remains an expert judgment, based on available information at the time of assessment. The information used in the assessment will change over time as technologies and policies evolve globally and in individual countries.

11. The WB's PA commitment is implemented at the operation level during preparation, to achieve a given set of development objectives and in the context of a specific country in a given time frame. The PA Method provides an operational framework to help address relevant issues in terms of design and climate risk management, including by providing necessary assistance to improve the country's institutional systems and capacities to manage associated climate and carbon lock-in risks, and/or by revising the scope and design of the operation, and the Development Objective(s) where relevant, to achieve equivalent development gains.

12. The proposed PA assessment methods build on, complement, and are consistent with existing WB climate change commitments and operational policies. More specifically, the commitments on GHG accounting, the shadow price of carbon, and climate and disaster risk screening will inform the PA assessment. Other commitments assess other climate-related aspects of an operation, such as tracking the share of WB lending that contributes to climate mitigation and/or adaptation activities (i.e., climate co-benefits) and monitoring and tracking progress on climate results of mitigation and/or adaptation interventions (climate indicators). As explained in the following sections, the proposed PA assessment methods are also consistent with the management of operational risks and environment, forests, and natural resource aspects in DPF.

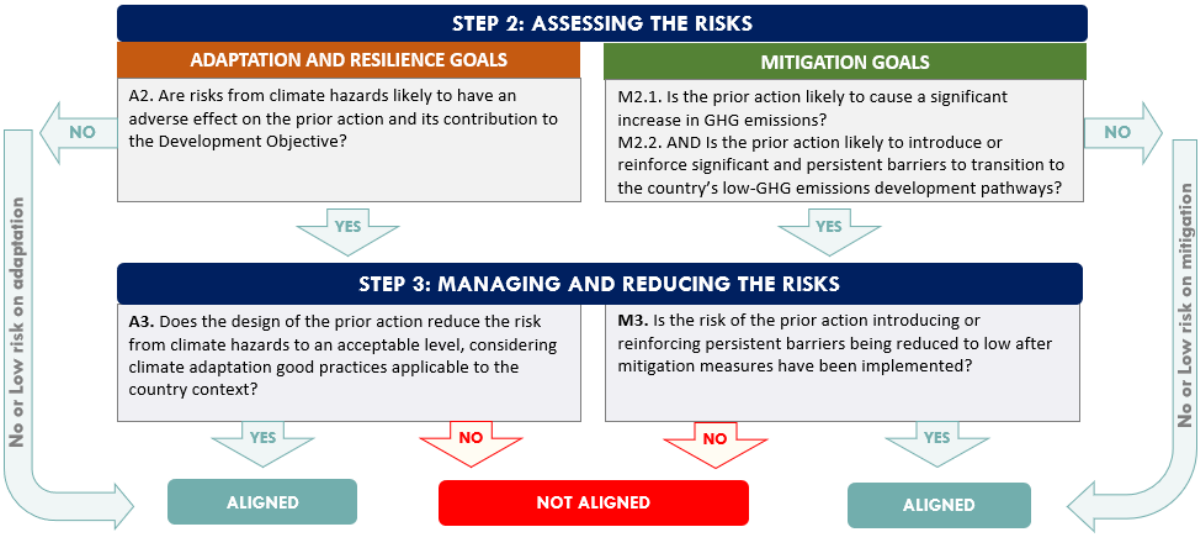
[3] The WBG's Climate Change Action Plan 2021–2025 refers to the 2021 UNFCCC "Synthesis Report by Secretariat on NDCs under the Paris Agreement," which states that although the updated NDCs (as February 2021) "have improved in quality and ambition, they collectively still fall far short of the mitigation and adaptation needed to meet the goals of the Paris Agreement." The Glasgow decision at COP26 calls on countries to revisit and strengthen their 2030 targets by the end of 2022 to align them with the Paris Agreement's temperature goals, recognizing that "limiting global warming to 1.5°C requires rapid, deep and sustained reduction in global GHG emissions" and "this requires accelerated action in this critical decade, on the basis of the best available scientific knowledge and equity, reflecting common but differentiated responsibilities and respective capabilities and in the context of sustainable development and efforts to eradicate poverty."

Explanation of the DPF PA Method for assessing Paris Alignment

13. The above definition of Paris Alignment is operationalized in the DPF PA Method by following the assessment steps illustrated in Figure 1. It entails (i) assessing the consistency of the DPF reform program with the country's climate strategies (e.g., NDCs, LTSs, NAPs), and, at the prior action level, (ii) assessing the climate adaptation and mitigation risks and (iii) managing the identified risks so they are being reduced. The assessment applies to the DPF reform program, consisting of the Project Development Objective(s) (PDOs) and the policy and institutional prior actions.

14. The demonstration of Paris Alignment of a DPF operation is context- and time-specific. This means that the assessment of mitigation and adaptation risks takes into account the country context and development needs; different levels of climate vulnerability; absolute GHG emissions and relative contribution to global GHG emissions; market, institutional, technical, and financial capacity; and different climate commitments at the time of the DPF preparation and submission to the Board. All these factors are taken into consideration when carrying out the assessment.

Figure 1. Assessing alignment of DPFs with the goals of the Paris Agreement



Step 1: Assessing the consistency of the operation with the country's climate strategies

STEP 1: ASSESSING THE CONSISTENCY OF THE OPERATION WITH THE COUNTRY'S CLIMATE STRATEGIES

Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?

15. Taking into account our climate analysis, e.g., CCDRs, teams should assess the consistency of the DPF reform program with the country's climate commitments, looking, for instance, at the most recent NDC submitted to the UNFCCC, the NAP, and the LTS (if available). The assessment can

also consider relevant sectoral, sub-national or regional climate change strategies to which the country subscribes.

16. In cases where there is a likelihood that the operation will hinder the achievement of the country's climate goals and commitments, the team should engage further with the government to seek alignment by revising the design of the DPF reform program, including the development objectives where relevant. If this is not possible, the operation should not be supported by the WB.

17. Once it is established that the operation does not hinder the achievement of the country climate strategies, the task team can proceed to **Steps 2** and **3**.

Steps 2 and 3: Assessing the risks and risk management

18. These steps entail assessing the alignment of the prior actions supported by the DPF operation with the mitigation and adaptation and resilience goals of the Paris Agreement. The assessment is carried out for each of the DPF prior actions supporting policy and institutional reforms.

MITIGATION GOALS

Mitigation Step M2: Assessing alignment of the DPF prior actions with mitigation goals

19. **A DPF prior action is aligned with the Paris Agreement's mitigation goals** if it (i) actively contributes to decarbonization by supporting GHG emission reductions or increasing sinks[4] (e.g., policies that incentivize renewable energy generation), or (ii) has little impact on decarbonization on account of leading to negligible GHG emissions (e.g., reforms related to digital inclusion or connectivity), or (iii) generates significant GHG emissions but is in line with the country's long-term decarbonization pathway and has a low risk of **locking in carbon-intensive** patterns.

20. A DPF prior action is considered **non-aligned with the Paris Agreement's mitigation goals** when it is inconsistent with the country's decarbonization pathway, taking into consideration the country's specific circumstances, and leads to a (higher than low) risk of **carbon lock-in**.

21. **Carbon lock-in** occurs when an operation supports reforms, investments, institutions, or behaviors that will persist in the future in an emission-intensive way and hinder the transition to low-GHG emission development pathways, even when alternatives with lower GHG emissions become technically feasible and economically viable (i.e., it creates persistent barriers to the transition).[5]

22. The assessment comprises two steps. **Step M2** assesses whether the prior action is likely to cause a significant increase in GHG emissions or reduction in carbon sinks[6] and to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emission development pathways. **Step M3** assesses whether government actions (current or committed) will reduce this risk to low.

23. This means that some prior actions may be Paris-aligned and still cause a significant increase in GHG emissions, as long as there are no viable alternative pathways with lower GHG emissions that achieve equivalent Development Objective(s), accounting for the specific country and sector context, and as long as the risk of creating significant and persistent barriers to transition is low.

[4] See Glossary.
[5] A lower GHG emissions option in this context has a high degree of certainty that it will be technically feasible and economically viable in a world in which goals of the Paris Agreement are met. The barriers can be due to technical, economic, or institutional factors.
[6] See Glossary.

For example, prior actions supporting economic growth and productivity across sectors may fall in this category.

24. In addition, consideration of the country's development context and core development needs could reflect different country circumstances, including economy-wide and sector-wide low-GHG emissions and climate-resilient pathways, in assessing PA risks for mitigation. For example: (i) lower-income countries facing essential development needs are typically lower on their GHG emissions trajectory and historically contributed very little to global GHG emissions, while upper- and middle-income countries, many of which are already large or fast-growing GHG emitters, have committed to reducing their emissions; (ii) lower-income countries may have more limited economic, financial, institutional, technical, and market capacity to access and adopt lower-carbon alternatives while transitioning to low-GHG emissions development pathways, while higher-emitting upper-middle-income countries may focus on transitioning away from fossil fuels across the economy and removing market barriers for green technologies, while working to ensure a just transition; and (iii) the ease and capacity of substituting emissive activities and systems by lower-carbon alternatives is partly reliant on the availability, scale of deployment, and supporting infrastructure and policies. The WB Country Climate and Development Reports (CCDRs), where available, can provide a useful analytic underpinning to support teams in considering the broader synergies and trade-offs between a country's national climate commitments and development objectives.[7]

Mitigation Step M2.1: Assessing the risks

MITIGATION GOALS
M2.1. Is the prior action likely to cause a significant increase in GHG emissions?

25. **Step M2.1** assesses whether the prior action is likely to cause a significant increase in GHG emissions or is likely to reduce carbon sinks. The task team should use their expertise as guided by PA Sector Notes and other available good practice.

26. In the case that the prior action does cause a significant increase in GHG emissions, the task team should demonstrate that to achieve the development objectives, the prior action design reflects good practice in terms of low-GHG emissions in this specific country context, using their expertise, Sector Notes, and relevant global experience. Countries have different levels of readiness to support these lower-carbon alternatives, considering, for example, their technological complexity, costs, and synergies and trade-offs with other development goals, as well as resource availability, production and consumption structures, and technical and institutional capacities. Teams should therefore design prior actions bearing in mind the country and markets in which they operate and applying good practices of policies and institutional reforms leading to lower GHG emissions for a given sector, country context, and Development Objective(s).

27. If the selected prior action is not likely to cause a significant increase in GHG emissions or reduction of carbon sinks, it is aligned for mitigation. If it is likely to cause significant emissions, the assessment proceeds to **Step M2.2**.

Box 1: "Universally aligned" and "universally non-aligned" prior actions

[7] Through CCDRs, country engagement products will incorporate climate, biodiversity and natural capital, and disaster risk issues, including as reflected in country climate strategies and NDCs.

DPF prior actions that only support **universally aligned activities** are considered aligned with mitigation goals. Universally aligned activities are activities that (i) actively contribute to decarbonization consistent with the pathways aligned with the mitigation goals of the Paris Agreement under all circumstances and in all countries, or (ii) have a negligible impact on decarbonization as they do no harm to the countries' transition to long-term low-carbon emissions pathways under all circumstances and in all countries.
Prior actions that support universally aligned activities but for which the effectiveness depends on enabling fossil fuel exploitation, processing, or transport, or on fossil fuel subsidies, could introduce or reinforce significant and persistent barriers to transition and should be further assessed using Step M2.2.

If the DPF reform program comprises prior actions that support activities that are deemed to undermine the mitigation goals of the Paris Agreement for all intents and purposes under all circumstances and in all countries, and are therefore **universally non-aligned**,[8] the DPF program is considered **not aligned with mitigation goals.**

The set of activities considered universally aligned or universally non-aligned will be periodically updated, increasing ambition over time to meet the goals of the Paris Agreement. Updates will also reflect evolving technologies, policies, practices, and consumer behavior.

Mitigation Step M2.2: Assessing the risks

MITIGATION GOALS

M2.2. Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?

28. **Step M2.2** assesses whether the prior action is likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways. A country's decarbonization pathway depends on many characteristics, such as the country's income level; poverty incidence; economic structure and dependence on fossil fuels; renewable energy potential; and the capacity of the government to support the transition, especially for the poor and vulnerable. Therefore, in assessing the likelihood of the prior action introducing or reinforcing significant and persistent barriers to the transition, the country's development context should be carefully considered. The specific application of this step is explained in relevant Sector Notes.

29. If the answer to **Step M2.1** and **M2.2** is "no," it is unlikely to cause carbon lock-in and is considered aligned with mitigation goals. If the prior action is likely to introduce or reinforce a significant risk of carbon lock-in, the assessment continues to **Step M3**.

[8] This currently includes mining of thermal coal and peat and electricity production from coal and peat.

Mitigation Step M3: Reducing the risks

STEP 3: REDUCING THE RISKS

M3. Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented**?**

30. If the prior action is likely to introduce or reinforce significant and persistent barriers, credible measures implemented or committed to by the government that reduce the risk to a low level should be identified and documented by the task team, using their expertise and relevant good practice. Risk reduction measures depend on the type of prior action, the country's development context, existing country systems, as well as the level of risk identified under **Step M2**.

31. The risk may be reduced through existing country institutional systems. It may also be managed through other measures that the government has committed to implement before or during program implementation, as appropriate. The task team provides an assessment of the adequacy and credibility of country systems and government commitments in relation to these measures.

32. If the level of risk is being reduced to low, the prior action is aligned with the PA mitigation goals. If the level of risk is not being reduced to low, the prior action is not aligned with the PA mitigation goals and should not be supported by the DPF.

33. In conclusion, the DPF program is aligned with the mitigation goals of the Paris Agreement when all prior actions of the proposed DPF program are aligned with the Paris Agreement mitigation goals.

ADAPTATION AND RESILIENCE GOALS

Adaptation Step A2: Assessing alignment with adaptation and resilience goals

34. A prior action is aligned with the Paris Agreement's adaptation and resilience goals when likely adverse effects of risks from climate hazards on the prior action's contribution to the DPF Development Objective(s) have been reduced through the design of the program to an acceptable level, considering climate adaptation good practices applicable to the country context.

35. Adverse unintended effects from the prior action that could significantly increase the country's vulnerability to climate hazards are addressed through the World Bank's Policy on Development Policy Financing.

36. Climate hazards arise from climate change impacts, including both gradual changes in temperature, precipitation, and seasonal patterns, and sudden-onset impacts, such as extreme weather events (i.e., forest fires, hurricanes, floods). As they relate to policies, climate risks can impact intended results of the reform program. For example, climate hazards can affect crops and labor productivity and place undue pressure on social and economic systems, directly affecting consumption, investment, and trade.

Adaptation Step A2: Assessing the risks

ADAPTATION AND RESILIENCE GOALS

A2. Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?

37. A prior action may not be well designed to achieve the desired Development Objective(s) considering the country's vulnerabilities to climate hazards. The assessment is made in the context of the country, and in particular taking into account any relevant country systems and institutional capacity which may inform the level of risk.

38. If the effectiveness of the prior action is unlikely to be significantly impacted by risk from climate hazards, the prior action is considered aligned under this Step. If it is likely, the assessment continues to **Step A3**.

39. Identifying and assessing adverse effect of risk from climate hazards on a prior action's contribution to the DPF Development Objective(s) in **Step A2** consists of assessing the **impact** of relevant climate hazards on the prior action's intended results, and the **adverse effect** on the DPF Development Objective(s).

40. Identifying climate hazards relevant to the DPF operation: Climate hazards prevalent in the country and relevant to the sector(s) targeted by the DPF operation need to be identified. The nature of climate hazards varies with the sector and country in which the DPF operation is undertaken.

41. Assessing the impact of climate hazards on the prior action's contribution to intended results: The impact of identified hazards on the effectiveness of the prior action in supporting intended program result(s) should be assessed. Both short-term (acute) and long-term (chronic) as well as direct and indirect climate hazards should be considered. **If climate hazards are not expected to impact negatively the prior action's contribution to intended result(s), the prior action is considered aligned with adaptation and resilience goals.**

42. Assessing adverse effect on the DPF Development Objective(s): If climate hazards are expected to have a negative impact on the prior action's contribution to intended result(s), the ability of country systems to manage this impact on the DPF Development Objective(s) should be assessed. This entails, for example, laws, regulations, procedures, standards in place (e.g., climate risk-informed public investment frameworks, climate-informed public procurement guidelines, climate-resilient infrastructure design standards, etc.) and institutional capacity (e.g., institutional awareness of climate hazards, ability to conduct risk and impact assessments, ability to plan and implement risk reduction measures, etc.) to address such impacts. In the absence of requisite country systems and institutional capacity to address the risk identified in Step A2, the assessment continues to **Step A3.**

Adaptation Step A3: Managing the risks

STEP 3: MANAGING THE RISKS

A3. Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?

43. If the prior action's contribution to intended results is likely to be significantly impacted by climate hazards, the task team should demonstrate that its design adequately reflects climate adaptation

good practices applicable to the country context and thereby sets the risk at an acceptable level considering the intended program's development objective. The task team should use their expertise as guided by relevant good practice and available relevant global experience to answer this question. If there is a better design to achieve the same objective, the prior action should be replaced accordingly.

44. If the design is consistent with climate adaptation good practices, the prior action is considered aligned under this step.

45. Even if this prior action is considered acceptable from a PA perspective, there may still be risks from climate hazards to the development objective that are substantial or high. They should be discussed following the usual management of operational risks in DPF programs.

46. In conclusion, the DPF program is aligned with the adaptation and resilience goals of the Paris Agreement when all prior actions of the proposed DPF program are aligned with the Paris Agreement's adaptation and resilience goals.

Annex 1 – Glossary

47. **Carbon lock-in of a DPF prior action:** The risk of carbon lock-in occurs when an operation supports reforms, investments, institutions, or behaviors that will persist in the future in an emission-intensive way and hinder the transition to low-GHG emissions development pathways, even when alternatives to achieving the Development Objective(s) with lower GHG emissions become technically feasible and economically viable,[9] creating persistent barriers to the transition.

48. **Definition of Paris Alignment of a WB financing operation**: a WB financing operation is aligned with the Paris Agreement when, in support of poverty reduction and shared prosperity, it is consistent with a country's pathway towards low greenhouse gas emissions and climate-resilient development in line with the Paris Agreement Goals.

49. **Risk from climate hazards:** Risks from climate hazards arise from climate change impacts, including both gradual changes in temperature, precipitation, and seasonal patterns as well as from sudden-onset impacts, such as extreme weather events (i.e., forest fires, hurricanes, floods, etc.). As it relates to policies, risks from climate hazards can impact intended results of the reform program. For example, they can affect crops and labor productivity, and place undue pressure on social and economic systems, directly affecting consumption, investment, and trade.

50. **Sinks:** Any process, activity or mechanism which removes a GHG from the atmosphere, thereby increasing the quantity of carbon stored/sequestered in a carbon pool (adapted from IPCC 2022). Terrestrial carbon conservation in which large volumes of carbon stored in natural forests, grasslands, and wetlands remain stored as carbon stocks is important for climate change adaptation and mitigation and is essential to increasing the resilience of ecosystems. The land use change that is likely to reduce carbon stocks may include the conversion of forest or other wooded land, wetland or peatland to any other use, and the conversion of grassland to arable land.

51. **Universally aligned activities** as defined in the IPF Method cover activities that (i) actively contribute to decarbonization consistent with the pathways aligned with the mitigation goals of the Paris Agreement under all circumstances and in all countries (for example, renewable energy with low lifecycle GHG emissions, electric and non-motorized urban mobility), or (ii) have a negligible impact on decarbonization as they do no harm to the countries' transition to long-term low-carbon emissions pathways under all circumstances and in all countries (for example, cash transfer schemes).

52. **Universally non-aligned activities** cover activities that are deemed to undermine the mitigation goals of the Paris Agreement for all intents and purposes under all circumstances and in all countries.

53. **WB financing operations** refer to DPF, IPF, and PforR financing instruments.

[9] A lower-GHG emissions option in this context has a high degree of certainty that it will be technically feasible and economically viable in a world in which the goals of the Paris Agreement are met. A carbon lock-in can occur due to the technical, economic, or institutional factors of a project/program.