

Aligning Policy-Based Finance with the Paris Agreement

Carolyn Neunuebel, World Resources Institute; **Anja Gebel**, Germanwatch; **Valerie Laxton**, World Resources Institute; **Aki Kachi**, NewClimate Institute

OCTOBER 2022



WORLD
RESOURCES
INSTITUTE



Highlights

- Most low-income countries at risk of, or in, debt distress received a policy-based operation (PBO) from a multilateral development bank (MDB) for COVID-19 relief.
- PBOs support macro-fiscal stability and development plans by financing government budgets, mostly as sovereign loans, in exchange for policy and institutional reforms (“policy actions”).
- The Glasgow Climate Pact calls upon MDBs to accelerate the alignment of their activities with the Paris Agreement, but an approach for PBOs has not yet been determined.
- We identify Paris alignment in PBOs as whether their policy actions and budget support undermine or promote long-term macro-fiscal stability and a just transition to climate neutrality by 2050.
- We reviewed bank policies and evaluations, interviewed 29 staff, analyzed a representative sample of PBOs in three policy areas, and examined six case studies.
- MDBs need to systematically inform policy actions with longer-term climate considerations and create guidance to screen potential for significant harm to Paris alignment.
- Shareholders should establish a multidonor trust fund that provides more concessional budget support—especially grants—in PBOs that support domestic policy coordination for ambitious climate action and harmonize development activities through country platforms.

Contents

Executive Summary.....	2
1. Importance of Aligning Policy-Based Operations with the Paris Agreement.....	4
2. Introduction to Policy-Based Finance	6
3. Examination of Policy Actions.....	12
4. Discussion and Recommendations.....	25
Appendix A: Data Sources and Policy Actions in Selected Areas.....	27
Endnotes	30
References	31

Working Papers contain preliminary research, analysis, findings, and recommendations. They are circulated to stimulate timely discussion and critical feedback, and to influence ongoing debate on emerging issues. Working papers may eventually be published in another form and their content may be revised.

SUGGESTED CITATION: Neunuebel, C., et al. 2022. “Aligning Policy-Based Finance with the Paris Agreement.” Working Paper. Washington, DC: World Resources Institute. Available online at <https://doi.org/10.46830/wriwp.21.00066>

Executive Summary

Background

Multilateral development banks (MDBs)¹ are developing a joint approach for Paris alignment² (AfDB et al. 2018). Four MDBs³ finance policy-based operations (PBOs),⁴ which provide unearmarked finance to government budgets in exchange for policy and institutional reforms (“policy actions”). Policy actions have potentially far-reaching implications for Paris alignment as they influence partner countries’ capabilities and help create an enabling environment for economic activities.

Budget support accounted for US\$139 billion (38 percent) of new MDB commitments in 2015–2020, from 10–25 percent in a typical year to 30–60 percent during a crisis such as COVID-19 (Figure ES-1). More than three quarters of the 39 low-income countries currently at high risk of, or already in, debt distress were approved for a PBO from an MDB in 2020, mostly for emergency relief.

About This Paper

We suggest an approach for Paris alignment by conceptualizing the “do no significant harm” principle and exploring how MDBs can maximize ambition for climate action in PBOs. **Recognizing that the amount and type of budget support influences the selection of reforms, we consider PBOs to be Paris-aligned if their policy actions are compatible with the following:**

- **Do not undermine a just transition to climate neutrality** by increasing macroeconomic, fiscal, or social exposure to climate risks.
- **Wherever possible, support and promote long-term macro-fiscal resilience to climate risks and a just transition to climate neutrality.**

We interviewed 29 MDB staff and use a multipronged research approach. Based on an extensive desk review, we generalize an MDB framework for aligning the PBO process with the Paris Agreement in Section 2. In Section 3, we outline considerations for Paris

alignment by examining policy actions in three policy areas that reported the largest volumes of MDB budget support in 2018–20. We apply our considerations to two case studies in each policy area to identify gaps in Paris alignment, which informs our findings and recommendations in Section 4.

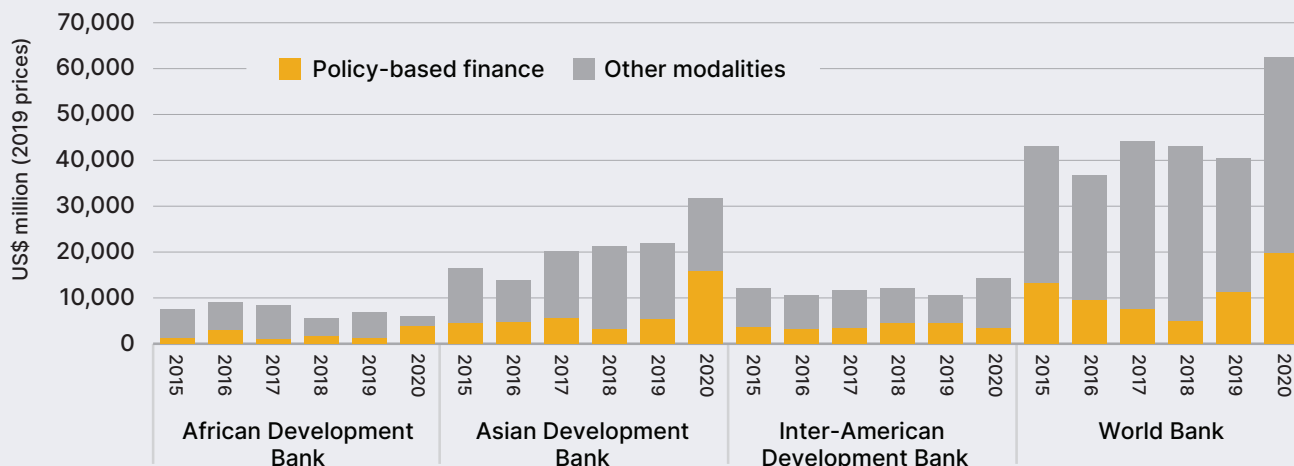
To fulfill their pledge to align activities with the Paris Agreement, MDBs need to address gaps across the PBO process (Figure ES-2). We make recommendations for sector and country managers, project teams, and shareholders.

Key Findings

Current practice and procedure for risk screening in PBOs is not suited to prevent policy actions from undermining government capability to promote long-term macro-fiscal stability and a just transition to climate neutrality by 2050. Policy actions can create path dependence in climate-vulnerable activities (e.g., agriculture, fossil fuels) and delay urgent climate expenditures that would decrease overall transition costs. Diagnostics are not sufficient for determining a country’s macro-fiscal exposure to climate risks and do not systematically determine institutional capacity for climate action. Social impact assessments do not yet consider needs for a just transition in climate-vulnerable sectors.

Most PBOs, certainly all that aim to support long-term macro-fiscal stability, can support Paris alignment and countries’ development objectives. The macro-fiscal overview, country dialogue, and development partner coordination that determine how PBOs are formulated afford an opportunity to support domestic policy coordination for ambitious climate action and harmonize development activities. However, evidence of climate-related reform benefits remains limited, and MDBs neglect mainstreaming Nationally Determined Contributions (NDCs) in development plans that primarily inform bank activities.

FIGURE ES-1 Total US\$ Commitments by Banks and Development Modalities (2015–2020)



Source: OECD 2022b / CRS (database) for 2015–19 and authors' compilation for 2020 (see Appendix A for more details).

FIGURE ES-2 Generalized Framework for Paris Alignment in Policy-Based Operations



Note: Climate risks include physical risks (slow onset and natural disasters) and transition risks (such as stranded assets or lock-in).

Source: Authors.

Recommendations for Multilateral Development Banks

Sector and Country Managers

- **Systematically integrate long-term climate considerations in macroeconomic, fiscal, and institutional assessments that inform country strategies, including with robust decision-making approaches.** Staff can provide technical assistance (TA) and engage with stakeholders to inform short-term policy decisions. Macro-fiscal models can integrate stock variables for natural capital if data are available. An overview of government capacity for climate action is needed to prevent potential harm in policy actions and support effective mainstreaming.
- **Create guidance to screen potential for significant harm to Paris alignment in policy actions and mainstream climate considerations in social impact assessments; support robust application by staff with training and accountability mechanisms managed by climate expertise.** Bank guidance for Paris alignment in PBOs needs to be specific on the potential for reforms to indirectly undermine climate action and to avoid inconsistent application by staff.

Project Teams

- **Include at minimum, one climate results indicator for Paris alignment in every PBO and support links to policy actions with rapidly deployable TA and regular evaluations for effectiveness.** Reforms need to be country-owned and credibly linked to results indicators that support Paris alignment, and TA needs to be readily available to meet countries' needs.
- **Systematically identify cofinancing sources outside of fixed MDB country envelopes to support climate action in PBOs, including from bilateral development finance institutions (DFIs) and climate funds.** Budget support is usually counted against countries' fixed MDB envelopes, making it fungible with other forms of support.
- **Systematically assess whether policy actions support long-term structural resilience and a just transition to climate neutrality if they are used to report budget support as climate finance in PBOs.**

This can help translate departmental goals for climate cobenefits into processes that mainstream NDCs in development plans that mainly inform MDB country strategies.

Recommendations for Shareholders

- **Provide more concessional budget support—especially grants—for partner countries to implement reforms that support ambitious climate action, potentially with PBOs specialized for this purpose.** Most budget support is provided in the form of a loan, and some countries, including those systemically vulnerable to climate change, lack the fiscal space necessary to qualify. To increase the provision of global public goods, budget support should be accessible for climate action in PBOs.
- **Maximize the effectiveness of climate action in PBOs by establishing a multidonor trust fund that supports MDBs and development partners to align reforms and investments with the Paris Agreement through country platforms.** MDBs already support domestic policy coordination and harmonize across development partners for effectiveness, but not systematically.

1. Importance of Aligning Policy-Based Operations with the Paris Agreement

Multilateral development banks (MDBs)⁵ are developing a joint approach for Paris alignment⁶ (AfDB et al. 2018). Four MDBs⁷ finance policy-based operations (PBOs):⁸ the African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IDB), and World Bank (WB). PBOs have inherent potential to transform economies and society by supporting government budgets and structural reforms. As costs for meeting global climate objectives increase with delayed action (Riahi et al. 2021), the earlier banks support countries to achieve development objectives and Paris alignment, the smoother and less expensive transitioning to low-emissions, climate-resilient pathways will be.

COVID-19 increased global poverty and inequality, compounding the consequences of natural disasters in many countries, which are amplifying in intensity and frequency with climate impacts. Nearly 90 percent of low-income countries have been assessed by the WB and International Monetary Fund (IMF) to face at least a moderate risk of debt distress (IMF 2022b) and half identify as systemically vulnerable to climate change (CVF 2022). More than three quarters of the 39 low-income countries at high risk of, or already in, debt distress were approved for a PBO by an MDB in 2020, mostly for emergency relief.

The Glasgow Climate Pact calls on MDBs to “accelerate the alignment of their financing activities with the goals of the Paris Agreement” and “increase the scale and effectiveness of climate finance from all sources globally, including grants” and by mobilizing private finance (UNFCCC 2022). As of August 2022, MDBs have not yet presented a joint approach for aligning PBOs with the Paris Agreement, though most have committed to align all new activities by 2023–24 (McCandless et al. 2021). This working paper aims to inform their ongoing efforts to develop such methods by identifying current gaps in aligning PBOs.

Section 2 introduces criteria and a generalized MDB framework for Paris-aligned PBOs. We examine gaps in Paris alignment for a subset of policy actions and case studies in Section 3. We summarize our findings and present recommendations in Section 4.

Methodology

We use several methods and data sources to inform our recommendations:

- We use official statistics for an overview of policy-based financing from MDBs in 2015–19. Figures for 2020 are derived from preliminary data (see Appendix A).
- We reviewed policies, evaluations, and program documents to generalize an MDB framework for formulating and implementing Paris-aligned PBOs.
- We analyzed a representative sample⁹ of PBOs in three policy areas that report the largest volumes of budget support from MDBs in 2018–20: public finance management, public sector management,

and energy. Our sample covers 126 operations from a total of 361 operations.

- First, we compiled the policy actions associated with each operation and formulated categories and subcategories for those relevant to the policy area being examined.
- Second, we outlined considerations for how policy actions in each formulated subcategory could undermine or support climate action in partner countries.
- Third, we applied our considerations to two case studies in each policy area (six total) to identify gaps in Paris alignment and how MDBs could address these in the PBO process.
- Cases are based on operational documents and staff interviews and selected to ensure coverage of each MDB and varied regions.
- We interviewed a total of 29 MDB staff members to confirm our understanding of current practice and challenge and test our proposed approaches.

Limitations

We focus on how MDBs can support Paris alignment throughout the PBO process and do not classify specific reforms as aligned with the Paris Agreement. The impact of a policy action is more important than its precise form, which can foster significantly different outcomes depending on the country context. Some reforms are certainly more or less likely to support climate resilience and a just transition to climate neutrality, but we emphasize aligning PBO outcomes with the Paris Agreement to maximize government flexibility and traction for these ends.

We mainly use conventional operations to generalize a conceptual MDB framework for formulating and implementing PBOs. This framework can be applied to specialized PBOs, as shown by case studies of crisis response operations. It is nonetheless possible that elements will need to be tailored by the institution and for PBOs that are not commonly used, like the AfDB’s import support. We do not examine the applicability of our recommendations to similar budget support instruments, like the WB’s Program-for-Results Financing. Lastly, we do not consider Paris alignment

in terms of government use of funds for the budget support provided, though some researchers recommend adding fossil fuels to excluded expenditure lists (Mainhardt 2019; Recourse 2021).

2. Introduction to Policy-Based Finance

PBOs are designed to help partner countries meet actual or anticipated development needs by supporting policy and institutional reforms (“policy actions”)¹⁰ and providing unearmarked finance directly to government budgets (WBG 2015). Policy actions can have positive or negative implications for Paris alignment because they influence government capabilities and the enabling environment for economic activities. Budget support is disbursed (usually as a loan, but also as a credit, grant, or guarantee) once the partner country implements the policy actions previously agreed on with the bank. Country-level diagnostics inform MDB strategies with macro-fiscal, social, and institutional assessments, often facilitating synergies with development activities and investments. This information is essential in driving partner country demand for PBOs and understanding how policy actions can impact different contexts, including options for mitigating potential for social and environmental harm. Partner countries also request PBOs for countercyclical support. The associated budget support might be eligible for crisis response windows in such instances, but typically counts toward countries’ annual fixed envelopes.

MDBs provide conventional and specialized PBOs with different eligibility standards. Most PBOs can be “stand-alone” to support a particular policy area within one to two years or “programmatic” to support multiyear government action plans through broader structural reforms. However, countercyclical PBOs can disburse in months. As it is always necessary to achieve the desired reforms, PBOs require some macro-fiscal stability in the partner country, demonstrated with assessments by the bank or IMF, though PBOs specialized for crisis response have criteria that enable quicker disbursement. The ADB, IDB, and WB offer specialized PBOs designed to mitigate disasters with a contingent financing line that disburses immediately following a catastrophic event through a deferred drawdown option.¹¹

Criteria for Paris Alignment

We define MDB Paris alignment as focusing climate finance on global mitigation and adaptation goals, maximizing its volumes, and ensuring other financial flows’ consistency with the Paris Agreement and development pathways (Figure 1).

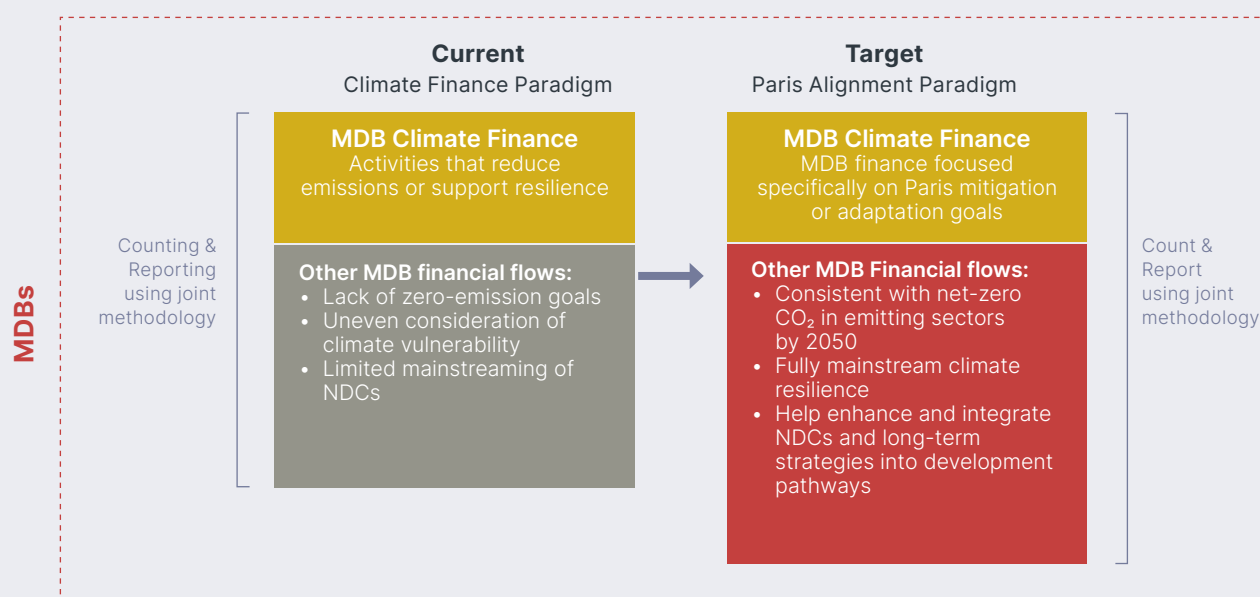
Determining Paris alignment in a PBO depends on the scope and impact that its policy actions and budget support have on the government’s ability (as the counterparty) to implement and enhance ambition in its NDC. In other words, it depends on identifying the likely impacts of these elements on the partner country’s transition to low-emissions, climate-resilient development. **Recognizing that the amount and terms of budget support can influence formulation, a PBO can be considered Paris-aligned if its policy actions are compatible with the following:**

- **Do not undermine a just transition to climate neutrality¹²** by increasing macroeconomic, fiscal, or social exposure to climate risks
- **Wherever possible, support and promote long-term macro-fiscal resilience to climate risks and a just transition to climate neutrality**

The following subsections describe how MDBs calculate and attribute budget support, formulate policy actions, and support effectiveness in PBOs. We conclude the section by identifying requirements for Paris alignment within each step of the PBO process.

Budget Support

Budget support represented \$139 billion (38 percent) of commitments in 2015–20, ranging from 10 to 25 percent in a typical year, to 30–60 percent during a crisis such as COVID-19 (Figure 2). The amount of budget support in a PBO is determined mostly by the partner country’s development financing needs—for example, overall and sector-specific requirements for achieving expected results, debt sustainability at the macroeconomic level, and size of budget deficit. MDBs explore funding from other sources, including the amount needed to attract counterpart funds for expenditure programs, and consider whether other development finance

FIGURE 1 Overview of Shift from Climate Finance Paradigm to Paris Agreement Alignment

Notes: MDBs = Multilateral development banks; NDCs = Nationally Determined Contributions; CO₂ = Carbon dioxide.
Source: Larsen et al. 2018.

institutions (DFIs) plan to provide budget support. This includes bilateral DFIs that provide PBOs, like the French Development Agency (AFD) and German Development Bank (KfW).

Attribution to Policy Areas and Climate Finance

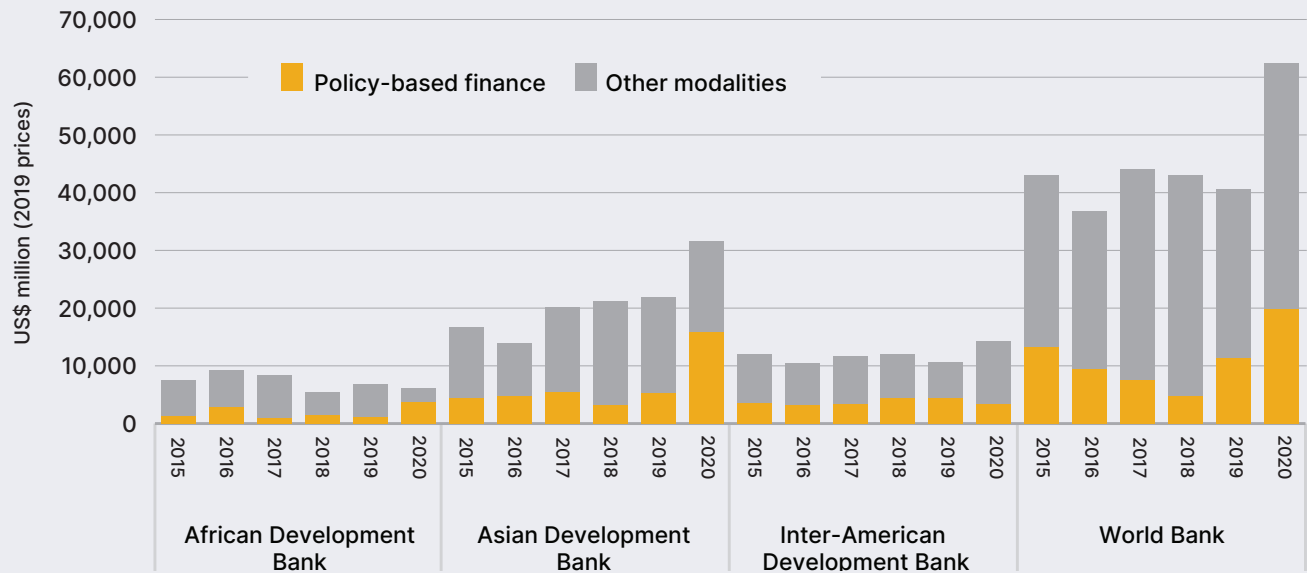
The joint MDB method for reporting climate finance attributes climate “cobenefits” based on the use of proceeds in project finance and technical assistance (TA), but budget support is attributed based on the share of total policy actions determined to have cobenefits in PBOs¹³ (AfDB et al. 2021). The WB requires, at minimum, one climate results indicator to attribute 20 percent or more of budget support as climate finance (WB 2021a, 2022a), but a relevant results indicator is not required in the joint method. Small shares of budget support are significant: the WB provided a US\$75 million credit to Madagascar for COVID-19 Response in 2020 and reported \$3 million (4 percent) as climate finance (2021c). The policy actions and results indicators do not mention climate change, even though \$2.3 million is reported to have mitigation cobenefits and \$0.8 million to have adaptation cobenefits in five policy areas that align with the reforms listed (see Appendix A). Public documents do not substantiate how small fractions of

various policy actions were determined to have climate cobenefits (WB 2021c).

Of the total \$90.2 billion of budget support provided by MDBs in 2015–19, \$9.9 billion (11 percent) had mitigation cobenefits and \$5.4 billion (5 percent) included adaptation cobenefits, mostly for specific purposes or economic sectors (Figure 3). In energy policy, \$5.7 billion (42 percent of total budget support reported as climate finance) included cobenefits. Nearly 80 percent of the \$3.2 billion for disaster prevention and preparedness included climate cobenefits, the largest share in a single policy area. General policy areas with economy- or society-wide scope have especially low shares of cobenefits in total budget support: banking (4 percent), government and civil society (3 percent), business and other services (2 percent), trade policies and regulations (1 percent).

Policy Actions

MDBs use similar approaches to select policy actions in conventional PBOs (Figure 4) and focus their value-added in the country dialogue and TA that accompanies reforms (ADB 2018). The greatest influence staff are likely to have on the reforms included in PBOs is in

FIGURE 2 Total US\$ Commitments by Banks and Development Modalities (2015–2020)

Note: The Inter-American Development Bank (IDB) limits use of PBOs to 30 percent of ordinary capital lending in four-year cycles and surpassed this rate in 2018–19, leading to decreased use in 2020, counter to sharp upticks in other MDBs. Policy-based finance figures for the AfDB in 2018 and ADB in 2016 are derived from their respective annual reports, due to notable data anomalies.

Source: OECD 2022b for 2015–19 and authors compilation for 2020 (see Appendix A for more details).

evidencing their benefits in diagnostics and associated analytical work. Diagnostics fall into two main categories and inform partner country dialogue and development partner coordination in a PBO:

- **Macro-fiscal assessments** (*for all operations*): determine the budget support and governance required to maintain macroeconomic stability for the duration of the PBO
- **Policy and institutional assessments** (*for specific policy areas or sectors*): determine the least-cost policy and institutional reform options for achieving desired development outcomes

Nationally Determined Contributions (NDCs) are required in all MDB country strategies, but only the IDB aims to support ambitious NDCs¹⁴ and Long-Term Strategies (LTS) (E3G 2022). Some physical risks (e.g., droughts, hurricanes) have factored into macro-fiscal assessments where quantitative data are available,

but coverage is neither systematic nor does it include risks that are difficult to quantify with credible models (e.g., sea-level rise, stranded assets). In 2022, the WB published its first set of country-level diagnostics for climate and development, and the IMF included climate change for the first time in staff guidance for regular macro-fiscal surveillance of member countries (WB 2021b; IMF 2022a).

Environmental and social (E&S) policies for PBOs can limit the scope of risk screening to direct impacts that fail to capture the indirect nature of reforms, whether in policy or in practice. The IDB requires staff to screen policy actions for “**significant and direct** negative effects on the country’s environmental and natural resources,”¹⁵ which includes a component for climate change (2020). The AfDB and ADB similarly feature climate change as a component of risk screening for negative environmental impacts but include potential

indirect and cumulative impacts in their policies (2015; ADB 2009). WB policy requires staff to screen policy actions for effects on environmental and natural resources but does not explicitly include climate change as a component and only clarifies coverage of direct and indirect effects in nonmandatory staff guidance (WB 2004, 2017).

In the sole MDB evaluation of environmental risk screening in PBOs, the WB’s independent unit finds similar policies are identified as risky by staff in some PBOs and not others “without a clear justification based on context” (World Bank, IEG 2015). Evaluators identified 66 policy actions in their sample that had potentially significant adverse environmental effects, using bank guidance, but only 35 of these policy actions were identified by bank staff (World Bank, IEG 2015). Additionally, operational documents often state “there

is no potential for negative environmental effects from the specific policies,” and some specify no potential for “direct” adverse environmental effects without considering potential indirect impacts (World Bank, IEG 2015).

MDB policies state staff should prioritize using or strengthening partner countries’ institutional capacity to reduce adverse effects in PBOs, though other solutions can be proposed depending on circumstance (ADB 2018; WB 2017; IDB 2020; AfDB 2015).

Development Effectiveness

PBO evaluations across the MDBs cite country ownership, clear links between policy actions and results indicators, and harmonization with development partners as necessary for effectiveness. In 2005, the Paris Declaration enshrined country ownership as the

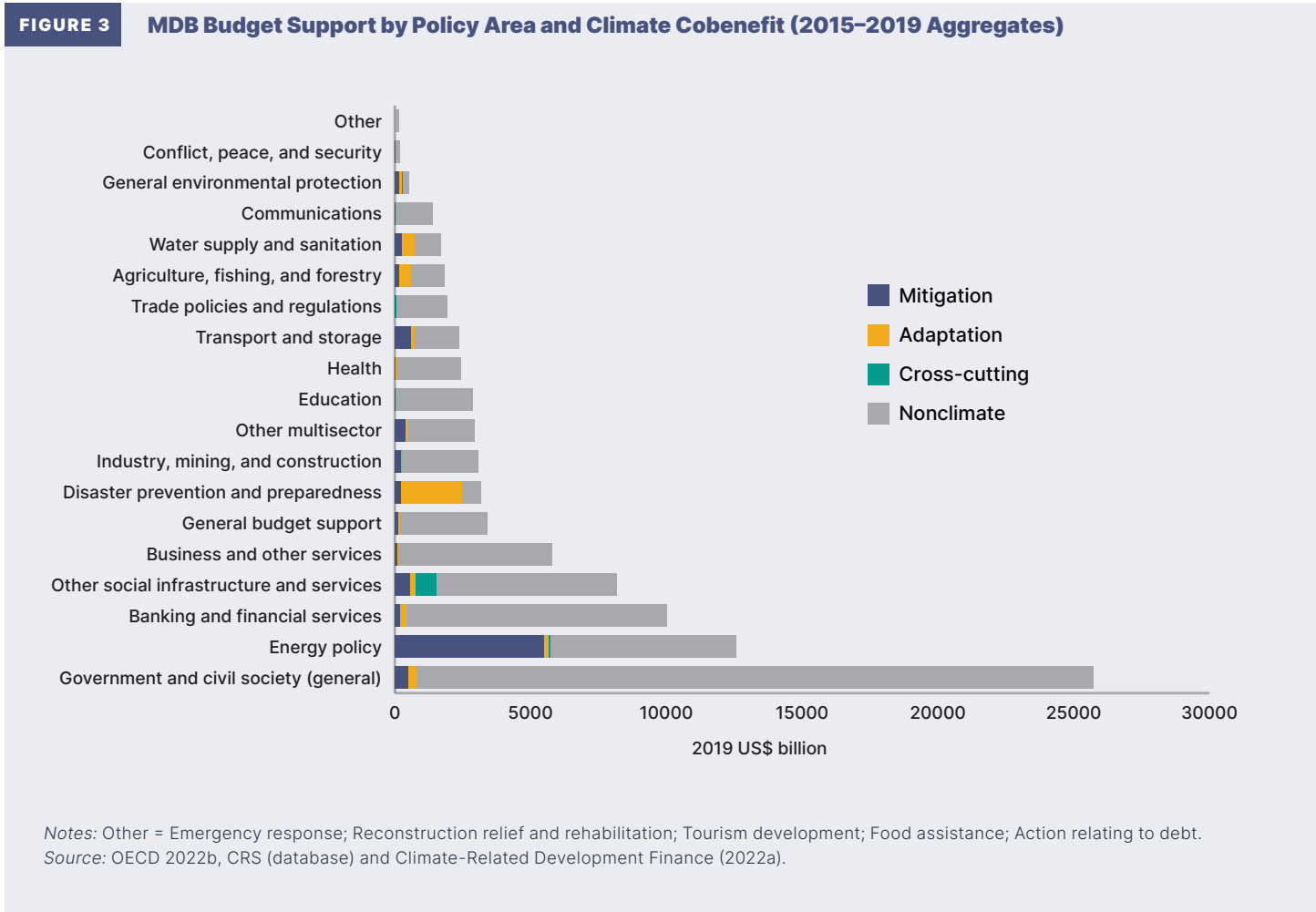


FIGURE 4 Generalized MDB Framework for Formulating Policy-Based Operations

Note: Climate risks include physical risks (slow onset and natural disasters) and transition risks (stranded assets and lock-in).
Source: Authors.

cornerstone for reform selection (IDEV 2018; ADB 2018; IDB 2016) and defined harmonization as coordinating, simplifying procedures, and sharing information to avoid duplication across development partners (OECD 2005). Independent evaluation units recognize methodological challenges in attributing development outcomes to reforms in PBOs and emphasize the need for a robust link between program objectives, results indicators, and the selection of policy actions (IDEV 2018; ADB 2018; IDB 2016).

Policy actions tend to be more successful in achieving the desired results when implementation is supported by TA and coordinated among development partners. Evaluators at the AfDB note that these benefits can be undermined by failure to deploy TA quickly—unless already in place, TA is designed “like full projects rather than rapidly deployable expertise” and often arrives toward the end of a PBO series as a result (IDEV 2018). The ADB cites an example in Indonesia where TA was used for more than a decade to establish an independent financial services authority to oversee the financial sector (ADB 2018). The most recent WB

retrospective states, “MDBs often coordinate policy actions, results indicators, and relevant [TA] in budget support operations, to ensure complementarity and reflect their areas of involvement and comparative advantage” (2022a). The report further elaborates that coordinated support with the IMF is particularly helpful for reform implementation.

Generalized Paris Alignment Framework

Figure 5 expands our generalized MDB framework for agreeing to policy actions with partner countries to include the requirements for aligning PBOs with the Paris Agreement. MDBs should assess countries’ macro-fiscal exposure to climate risks and institutional capacity for climate action in diagnostics and then support long-term plans to avoid these risks. They should also use such evidence to screen policy actions for potential harm to Paris alignment. This evidence should inform dialogue with partner countries (including in accounting for stakeholders that face disproportionate climate risks) and coordination with development partners

FIGURE 5 Generalized MDB Framework for Paris Alignment in Policy-Based Operations

Note: Climate risks include physical risks (slow onset and natural disasters) and transition risks (stranded assets and lock-in).
Source: Authors.

(which should help address identified barriers and harmonize approaches for Paris alignment). MDBs could then support countries to set results indicators for macro-fiscal resilience to climate risks and achieve them with associated policy actions. Independent evaluations should be systematized to improve the effectiveness of results indicators that support partner countries toward Paris alignment.

3. Examination of Policy Actions

To better understand gaps between PBOs and Paris alignment, we analyzed all the policy actions in a randomized sample of 126 out of a total 361 operations that reported budget support in selected policy areas in 2018–20, stratified proportionally for each MDB by year. We review two general policy areas present in virtually any operation: public finance management (PFM) and public sector management. As an example of sector reforms, we review energy policy, which accounts for the next largest volumes of budget support. We identify considerations for Paris alignment as “potential for significant harm to” and “opportunities for” climate action in the policy actions examined. Policy actions are extremely varied, making categorization and analysis informative but not exhaustive, ultimately based on informed judgment and expert review. To inform an operational scope for Paris-aligned PBOs, we apply these considerations to six case studies.

Public Finance Management Reforms

We analyzed policy actions in 51 out of the 196 operations¹⁶ with budget support reported to PFM in 2018–20, and mapped each into six subcategories related to overarching revenue management or seven

subcategories related to government expenditure.

Table 1 summarizes considerations for Paris alignment in Overarching Revenue Management reforms. In Chad, for example, the second operation of a programmatic series appears in our sample with two policy actions categorized under fiscal and debt sustainability. One of these policy actions establishes and increases capacity for a medium-term debt management strategy. The other enacts a fiscal stabilization function for oil revenue management. In screening the policy actions, staff conclude that neither carries significant environmental consequences because they are “policy-oriented” and “do not support direct investment in environmentally impactful investments” (WB 2019). Yet Chad’s oil sector represented 45 percent of government revenues in 2018, and most economic agents depend directly on government spending—meaning the oil sector’s links with the rest of the economy are present through fiscal policy (IMF 2019).¹⁷

MDBs could factor transition risks into revenue management frameworks and support partner countries to mitigate against such risks to prevent potential harm and align similar policy actions with the Paris Agreement. MDBs can also support countries to formulate and implement strategies that diversify fiscal revenues toward Paris-aligned sources and minimize transition risks in the long term.

TABLE 1 Considerations for Paris Alignment in Overarching Revenue Management Reforms

Subcategory	Potential for significant harm	Potential for climate cobenefits
PFM1: Fiscal policy and administration		
PFM1.1 Fiscal and debt sustainability	<p>May increase vulnerability by rationalizing fiscal buffers for physical hazards</p> <p>May amplify medium- and long-term exposure to climate risks by increasing labor market dependence, revenue dependence, or public sector financial liabilities in climate-vulnerable activities</p>	Mainstreaming climate risks, targets, and policy objectives in fiscal frameworks or debt sustainability forecasts can support longer-term planning and identification of urgent climate investments that decrease overall transition costs
PFM1.2 Budgetary governance and development planning	<p>May increase overall just transition costs by delaying urgent climate spending or adding expenditures to climate-vulnerable activities</p>	Systematically tagging expenditures for positive and adverse climate outcomes can help identify gaps in climate finance, enable sovereign sustainability bond issuance, and support policy coherence in expenditure reviews or impact evaluations

TABLE 1 Considerations for Paris Alignment in Overarching Revenue Management Reforms (cont'd)

Subcategory	Potential for significant harm	Potential for climate cobenefits
PFM1: Fiscal policy and administration		
PFM1.3 Public procurement	<p>May increase overall just transition costs by incentivizing labor market dependence in climate-vulnerable activities</p> <p>May exacerbate medium- and long-term exposure to climate risks in public assets</p>	<p>Prioritizing low-emissions, climate-resilient procurement can support the development of sustainable businesses and industries and enhance comparative advantage in future-proof activities with low unemployment risks</p>
PFM2: Tax administration		
PFM2.1 Intergovernmental revenue transfers	<p>May amplify medium- and long-term exposure to climate risks by increasing revenue dependence in climate-vulnerable activities</p> <p>May increase fiscal inequity and overall just transition costs by incentivizing resource degradation (e.g., land, water) that increases vulnerability in local communities</p>	<p>Mainstreaming climate risks in national and subnational fiscal frameworks and supporting an integrated approach to land and water use management across economic sectors can increase fiscal equity and enable longer-term planning in local communities that decreases overall transition costs</p>
PFM2.2 Revenue mobilization and collection	<p>May amplify medium- and long-term exposure to climate risks by increasing revenue dependence in climate-vulnerable activities</p>	<p>Supporting progressive pricing of environmental externalities can increase revenues and economic incentives for a just transition and decrease the social costs of carbon</p>
PFM2.3 Tax incentives and subsidies	<p>May amplify medium- and long-term exposure to climate risks by incentivizing labor market dependence in climate-vulnerable activities or decreasing revenues for urgent climate spending</p>	<p>Supporting an enabling environment that progressively incentivizes sustainable businesses and industries, including by decreasing incentives in climate-vulnerable activities, can decrease overall transition costs and enhance competitive advantage in future-proof activities</p>

Note: PFM = Public finance management.

Source: Authors.

Table 2 summarizes considerations for Paris alignment in reforms that increase or improve government expenditure to specified services and sectors.

TABLE 2 Considerations for Paris Alignment in Government Expenditure Reforms

Subcategory	Potential for significant harm	Potential for climate cobenefits
PFM3: Government expenditure		
PFM3.1 Agriculture	May increase medium- and long-term vulnerability and overall just transition costs by incentivizing the overexploitation of resources or undermining ecosystem services that support livelihoods	Supporting an integrated approach to land- and water-use management across economic sectors can address systemic vulnerabilities to climate risks, support income diversification using payments for ecosystem services, and equitably preserve livelihoods
PFM3.2 Private sector, nonspecific	May increase medium- and long-term vulnerability and overall just transition costs by incentivizing investments, and thus labor market dependence, in climate-vulnerable activities	Supporting an enabling environment that incentivizes sustainable businesses and industries can enhance competitive advantage in future-proof activities
PFM3.3 Infrastructure	May exacerbate medium- and long-term vulnerability by increasing fossil fuel dependence in households and employment or service disruption from climatic impacts	Low-emissions, climate-resilient infrastructure investments can lower medium- and long-term variable costs for end-users, reduce the social costs of carbon, avoid climate-induced service disruption, and support a just transition in future-proof activities
PFM3.4 Social services, disaster risk management, education	May increase medium- and long-term vulnerability by rationalizing social services or fiscal buffers for natural hazards May increase overall transition costs by incentivizing labor market dependence in climate-vulnerable activities	Climate-informed social services can decrease vulnerability and support a just transition Promoting skills in green industries can help diversify and support job creation, with employees seizing opportunities in future-proof activities
PFM4: SOE management		
PFM2.1 Governance, pricing, and performance	May amplify medium- and long-term exposure to climate risks by increasing public financial liabilities in climate-vulnerable activities May increase just transition costs by eroding labor empowerment in privatization	Mainstreaming climate risks, targets, and policy objectives in management frameworks can support longer-term transition planning
PFM2.2 Public financial institutions	May increase medium- and long-term vulnerability by incentivizing investments and labor market dependence in climate-vulnerable activities	Mainstreaming climate risks, targets, and policy objectives in mandates or strategies can incentivize investments in future-proof jobs, industries, and skills that decrease overall transition costs
PFM2.3 Tax incentives and subsidies	May amplify medium- and long-term exposure to climate risks by incentivizing labor market dependence in climate-vulnerable activities or decreasing revenues for urgent climate spending	Supporting an enabling environment that progressively incentivizes sustainable businesses and industries, including by decreasing incentives in climate-vulnerable activities, can decrease overall transition costs and enhance competitive advantage in future-proof activities

TABLE 2 Considerations for Paris Alignment in Government Expenditure Reforms (cont'd)

Subcategory	Potential for significant harm	Potential for climate cobenefits
PFM5: PPP Management		
PFM5.1 Governance, risk management, and project development	May exacerbate medium- and long-term exposure to climate risks in public assets May increase overall just transition costs by eroding labor empowerment in privatization	Mainstreaming climate risks, targets, and policy objectives in long-term asset costing can support stakeholder coordination to design low-emissions, climate-resilient infrastructure with a life cycle view

Note: PFM = Public finance management.

Source: Authors.

Case Studies

Table 3 shows climate risks have already impaired partner countries' ability to maintain the required macro-fiscal stability for the duration of a PBO. Table 4 illustrates how PFM can support long-term private sector resilience in PBOs.

TABLE 3 Macroeconomic Stability and Climate

The Economic Governance and Competitiveness Support Program, Phase II (EGCSP II) Namibia (2018–2019), AfDB, US\$118 million loan

PBO process and partnership context

After the commodity price collapse in 2015 widened the country's fiscal deficit, Namibia requested the EGCSP series, which aimed to increase real GDP from 0.2% in 2016 to 3.3% in 2019–20, decrease unemployment from 28.1% to 20.1%, and lower the poverty rate from 18 to 12%. The mining sector drives growth and offers the highest wage rates in Namibia but is subject to volatile prices and employs only 2% of the labor force. In comparison, agriculture contributes less than 5% to GDP but employs most of the population at low wage rates. The AfDB strategy states, "Namibia is highly vulnerable to climate change, which manifests itself in floods and droughts," yet, despite an ongoing drought, growth projections assumed increased rainfall and agricultural output. The drought persisted for two years, increasing unemployment and poverty and contributing to a recession that was worsened by low commodity prices. The AfDB approved supplemental financing for the series in 2020 to regain macro-fiscal stability and achieve the program's objectives. In response to the droughts, the bank also supported investment projects to increase resilience in the agriculture and water sectors.

Risks and mitigation measures

EGCSP II recognizes that fiscal consolidation could have negative social impacts by decreasing social spending and service delivery. To mitigate these risks, a "pro-growth strategy" is pursued by strengthening social safety nets and preserving capital expenditure and "pro-poor" spending. Insufficient capacity to implement reforms is also identified as a risk, and staff seek TA support for procurement reforms from a bilateral DFI.

TABLE 3 Macroeconomic Stability and Climate (cont'd)

The Economic Governance and Competitiveness Support Program, Phase II (EGCSP II) Namibia (2018–2019), AfDB, US\$118 million loan		
	Selected policy actions in PBO	Selected results indicators in PBO
PFM1.1	Issue Prime Minister Directive to promote administrative efficiency and, inter alia, contain the public service wage bill	Decrease public sector wage bill from 49% of total noninterest expenditure in 2016–17 to 45% in 2018–19
PFM3.1	Implement regulations for the 2015 Public Procurement Act	Creation of procurement policy unit, central procurement board, and review panel by 2018
Key findings		
<p>AfDB's provision of supplemental financing and resilience investment projects in drought-affected sectors is positive but indicates a need to mitigate climate risks before they materialize, to align PBOs with the Paris Agreement.</p> <p>Mitigating potential harm for Paris alignment Climate risks are difficult to quantify where data are limited, especially in short- and medium-term projections and when driven by slow-onset processes such as temperature rise. The AfDB could systematize identification of climate-vulnerable sectors or communities in country strategies and build evidence that localizes such risks using stakeholder dialogue or participatory methods. Such information could be mainstreamed in poverty impact assessments and improve the targeted ring-fencing of social safety nets and pro-poor spending from fiscal consolidation.</p> <p>Potential to support climate action The AfDB can support Namibia to mitigate macro-fiscal vulnerability to climate shocks over time with strategies that diversify employment and facilitate a just transition in climate-vulnerable sectors or communities. For example, staff could have identified TA support for green public procurement regulations aiming to incentivize the creation of Paris-aligned markets.</p>		

Notes: PFM = Public finance management; GDP = Gross domestic product; TA = Technical assistance; DFI = Development finance institution.

Source: Authors, based on interviews and AfDB 2018.

TABLE 4 Future-Proofing Private Sector–Led Growth in Policy-Based Operations: Morocco

**The Industrialization Acceleration Support Program, Phase II (PAAIMII)
Morocco (2019–20), AfDB, US\$308 million loan**

PBO process and partnership context

The PAAIM series supported Morocco's Industrial Acceleration Plan and aimed to create the foundation for a “diversified and inclusive economy that is resilient to external shocks, particularly climate shock” through structural reforms. The AfDB strategy outlines Morocco's dependence on oil imports as a risk to industrial competitiveness and aims to “sustainably support increased energy demand resulting from industrialization.” The PAAIM series complements other AfDB activities in Morocco to this end, such as cofinancing^a a PPP for solar power generation, TA to promote energy efficiency, and the development of industrial subsectors in renewable energy. The series was designed in coordination with development partners, particularly the European Union, which provided budget support in the same period with similar objectives for green competitiveness and industrialization.

Risks and mitigation measures

PAAIMII recognizes high macroeconomic vulnerability to climate in the agriculture sector as a risk and aims to implement reforms to accelerate diversification through industrialization to mitigate against these downsides. Insufficient ministry coordination is also identified as a risk, which staff mitigate against by increasing dialogue with all coordination entities.

	Selected policy actions in PBO	Selected results indicators in PBO
PFM2.3	Prepare list of activities covered by five-year corporate income tax exemption for new industrial companies	Increase share of industrial sector in GDP from 17.9% in 2016 to 23.0% in 2020
PFM4.2	Design a product for green financing as part of support for the financing of MSMEs	Increase number of MSMEs benefiting from guarantees from 7,290 in 2016 to 11,000 in 2020

Key findings

The AfDB's strategic focus on green development and Morocco's ambitious climate agenda enabled a whole-of-economy approach toward Paris alignment and harmonizes development activities to maximize effectiveness.

Creating a coordinated signal toward Paris alignment

Each policy action coordinates a domestic policy signal that is harmonized with development partners to mitigate macro-fiscal climate risk exposure. While tax exemptions incentivize industrial entrepreneurship more generally, fossil fuel production is notably not included in the selected activities. The AfDB preempts a rise in energy demand, providing TA to promote energy efficiency. The bank also supports renewable energy development in industrial subsectors by mobilizing public cofinancing and private investment for solar generation. The product dedicated to green finance was designed by the Ministry of Economy and Finance and is managed by Morocco's public guarantee fund, which focuses on MSMEs. A policy action in PAAIMI provided a framework for new financing products and established a strategic plan that “rais[ed] the commitment ceiling for middle size enterprises for purposes relating to industry, exports and the green economy”—effectively integrating sustainability considerations in the fund's five-year mandate.

Notes: PFM = Public finance management; GDP = Gross domestic product; PPP = Public-private partnership; TA = Technical assistance; MSMEs = Micro, small, and medium enterprises.

^a This includes two MDBs (the WB and European Investment Bank), two bilateral DFIs (AfD and KfW), a multidonor trust fund (Clean Technology Fund), and an European Union facility (Neighborhood Investment Facility).

Sources: Authors, based on interviews and AfDB 2019.

Public Sector Management Reforms

We analyzed policy actions in 38 out of the 84 operations¹⁸ with budget support reported to public sector management in 2018–20, and separated each into 10 subcategories for different administrative areas, state-owned enterprises (SOEs) and public-private partnership (PPP) management, and cross-cutting reforms for disaster and environmental management. Table 5 summarizes our alignment considerations for each public sector subcategory. Institutional

analyses need to consider climate-related capacity, transparency, mandate, and cooperation. Otherwise, policy actions might reduce countries' capabilities for implementing climate action and mainstreaming climate in administrative processes. For example, a Ministry of Construction that lacks the human resources and technical ability to implement climate reforms might delay the country's low-carbon transition, risking physical damage and stranded assets. A lack of planning and targeted services for adaptation and resilience by a Ministry of Social Affairs can increase climate vulnerability, poverty, and gender imbalances.

TABLE 5 Considerations for Paris Alignment in Public Sector Management Reforms

Subcategory	Potential for significant harm	Potential for climate cobenefits	
PSM1: General public administration and civil service			
PSM1.1	E-government	<p>May increase fossil fuel consumption due to increasing overall electricity consumption May increase waste and emissions through frequent replacement of hardware</p> <p>May increase risk of data loss due to exposure of digital storage to heat and severe weather events</p>	Using information and communications technology for feeding climate-related data in decision-making can support evidence-based government practice and improve climate-related coordination
PSM1.2	Civil service administration and management	May decrease climate-related capacity or coordination by reducing human resources for climate action	Building dedicated climate-related expertise, management capacity, and a mandate in civil service can support the mainstreaming of mitigation and adaptation in public administration and enable just transition planning
PSM1.3	Good governance	May neglect climate in reforms for transparency, competence, participation, responsiveness, and accountability, and in reforms for regulatory impact assessment	Strengthening climate-related transparency, competence, participation, and accountability at public institutions, preventing lobbying and using regulatory impact assessments can support climate action
PSM1.4	Management of public infrastructure	May exacerbate medium- and long-term vulnerability to climate risks, including by increasing fossil fuel dependence	Pioneering innovation in green and resilient infrastructure can accelerate decarbonization and ensure resilience against climate impacts, creating green jobs and supporting sustainable industries for a just transition

TABLE 5 Considerations for Paris Alignment in Public Sector Management Reforms (cont'd)

Subcategory	Potential for significant harm	Potential for climate cobenefits
PSM2: Private sector administration		
PFM2.1	Enabling bureaucratic environment for doing business May increase medium- and long-term vulnerability by incentivizing investments and labor market dependence in climate-vulnerable activities	Creating an enabling bureaucratic environment for green business and the deployment of green technologies can support a just transition
PSM3: Social service administration		
PFM3.1	Social service administration and management May exacerbate vulnerability and poverty and risk developmental setbacks if neglecting climate-related social risk factors, recovery support, and respective capacity	Targeting social interventions to enhance climate resilience of vulnerable segments of society and to provide social support for communities affected by the transition
PSM4: SOE management		
PFM4.1	SOE management May amplify medium- and long-term exposure to climate risks by increasing public financial liabilities in climate-vulnerable activities May increase just transition costs by eroding labor empowerment in privatization	Integrating SOE transition planning into governance reforms can lower transition costs
PSM5: PPP management		
PFM5.1	PPP regulation and management May increase emissions and climate vulnerability by improving management and approval of projects that are fossil-related and lack climate resilience	Increasing capacity to design and coordinate stakeholders for low-emissions, climate-resilient infrastructure can spur green public and private investment and the creation of green labor markets
PSM6: Disaster and environmental management		
PFM6.1	Environmental administration May face capacity constraints in implementation	Integrating systems with climate change management can speed up transition processes and use synergy effects between different levels of administration
PFM6.2	Disaster risk management May increase loss and damage by neglecting climate-related disaster risk factors in design	Integrating DRM with climate change management and development planning can decrease losses and damages

Notes: PSM = Public sector management; SOE = State-owned enterprise; PPP = Public-private partnership.

Source: Authors.

Case Studies

Table 6 shows how reforming the public sector in PBOs can boost growth. Table 7 shows how public sector reforms can help mainstream disaster resilience in development planning through PBOs.

TABLE 6 Reforming the Public Sector to Boost Growth in Policy-Based Operations: Argentina

Program to Boost Growth, Phase I Argentina (2018–2019), IDB, US\$300 million loan		
PBO process and partnership context		
<p>This programmatic series aimed to boost growth in Argentina by modernizing the institutional taxation framework to increase private investment and the institutional policymaking framework to increase efficiency in public investments (which is the focus of this table). Overarching results indicators aim to increase GDP growth from 1.3% in 2015–17 to 2.3% in 2019–21 and gross fixed capital formation from 14.8% of GDP in 2016 to 19% in 2021, by the end of the series. The bank strategy features climate change as a cross-cutting issue for private sector integration and mentions the government lacks a DRM strategy. Operational documents state the “main factor holding back growth may be the drought associated with the La Niña phenomenon.”</p>		
Risks and mitigation measures		
<p>Staff recognize lack of political consensus at the subnational level as a risk, which they mitigate by formulating the proposed reforms through a “lengthy consensus-building process with the provinces.”</p>		
Selected policy actions in PBO		Selected results indicators in PBO
PFM5.1	Guidelines to optimize execution of projects with PPPs	No specific results indicator
PFM4.2	Measures to centralize monitoring and supervision of SOEs; Good Governance guidelines for SOEs	No specific results indicator
Key findings		
<p>The Program to Boost Growth lacks assurance that medium-term economic gains achieved through public sector reforms will not undermine Paris alignment by perpetuating path dependence. The indicators contained in the results framework fail to reflect the bank’s commitment to support green and resilient development.</p>		
Mitigating potential harm for Paris alignment		
<p>Though operational documents identify a potentially macro-critical climate risk from droughts, bank diagnostics did not include measures to mitigate this risk, or to increase long-term climate resilience. MDBs can systematically assess institutional capacity and governance for climate action. For example, climate risks could be integrated in SOE monitoring and reporting frameworks. The new Good Governance guidelines for SOEs, however, only contain a recommendation for SOEs to define “environmental efforts” in their sustainability policies (OECD 2018, 122).</p>		
Potential to support climate action		
<p>The aim to increase GDP growth and gross fixed capital formation with public sector reforms misses the opportunity to support low-emissions, climate-resilient development in public administration, and investment. To support Paris alignment in the extensive subnational dialogue, staff could include provisions for increased administrative capacity for climate-related monitoring of SOEs, adding decarbonization targets, transition plans, and adaptation requirements in SOE governance guidelines. Results indicators could be added to reflect climate-compatible economic development goals of public sector measures (e.g., the number of SOEs with 1.5°C-compatible transition plans).</p>		

Notes: PSM = Public sector management; GDP = Gross domestic product; DRM = Disaster risk management; PPP = Public-private partnership; SOEs = State-owned enterprises; MDB = Multilateral development bank.

Source: Authors, based on IDB 2018.

TABLE 7 Mainstreaming Disaster Resilience in Policy-Based Operations: Philippines

**COVID-19 Disaster Resilience Improvement Program
Philippines (2020–2023), ADB, US\$500 million loan**

PBO process and partnership context

The Philippines is highly susceptible to disaster risks that disproportionately impact vulnerable groups. Losses from typhoons are estimated at \$2.7 billion and earthquakes at \$896.2 million each year. This contingent disaster financing PBO aimed to strengthen the disaster resilience and pandemic response of public institutions and communities.

Risks and mitigation measures

The PBO identifies limited operational and human capacity to account for climate-related costs as a risk and mitigates it with TA to improve national and local government capacity “to ensure accurate tagging of disaster risk reduction and climate change adaptation budgets and expenditure.” Another risk is high uncertainty in the model used in the city-level parametric disaster insurance scheme. It is mitigated with an improved parametric trigger structure “based on both historical and latest scientific understanding of tropical cyclones and earthquakes.”

	Selected policy actions in PBO	Selected results indicators in PBO
PFM3.1	Establish the Department of Disaster Resilience to address needs of vulnerable groups	Minimum 40% of government expenditures are climate and gender-tagged
PFM6.2	Approve city-level parametric disaster insurance scheme with near-immediate payouts for earthquakes and/or typhoons	Parametric insurance coverage purchased by 20 cities

Key findings

This disaster response PBO supported inclusive climate mainstreaming while expanding the availability of risk financing with budget support set to disburse immediately following a disaster.

Mainstreaming resilience in public institutions

As PBOs tend to focus on macro-fiscal stability or a specific reform area, effective mainstreaming across institutions can be a challenge. This PBO facilitated cross-cutting reforms in local governance, social protection, and health services that improved coordination and enhanced mandates alongside targeted support to increase capacity—for example, by improving the parametric disaster insurance scheme.

Notes: None of the selected results indicators above have an available previous baseline. PSM = Public sector management; TA = Technical assistance.

Source: Authors, based on ADB 2020.

Energy Sector Reforms

We analyzed policy actions in 37 out of the 81 operations¹⁹ with budget support reported to energy sector policy in 2018–20, and mapped each into four subcategories. A frequent policy goal for MDBs and countries is to reduce energy poverty by increasing access; making price reforms; and expanding supply, transmission, and distribution infrastructure reforms in the sector.

Table 8 summarizes our proposed alignment considerations for each energy subcategory. Though several MDBs have excluded direct finance of coal and upstream oil and gas, multiple policy actions support investments in increased upstream fossil fuel extraction, transport and distribution, and downstream use of fossil fuels. For example, there are policy actions that support new business units from state utilities to distribute and sell fossil fuels, and new regulatory measures to promote private investment in fossil fuels.

TABLE 8 Energy Sector Reforms

Subcategory	Potential for significant harm	Potential for climate cobenefits
E1: Energy Sector Policy		
E1.1	Overall energy market design and governance May divert country from a least-cost decarbonization pathway and create incentives for fossil fuels	Integrating least-cost decarbonization pathways in development plans and optimizing market design can support a just transition
E1.2	SOE utilities governance May divert resources and expertise into activities not compatible with a least-cost decarbonization pathway	Supporting decarbonization strategies and requiring climate experience in board members can mobilize investment for clean infrastructure
E1.3	Support for specific energy sources May exacerbate transition risks by creating investment incentives in climate-vulnerable activities such as fossil fuels or biomass	Promoting energy efficiency, electrification, and renewables can support a just transition
E1.4	Energy transmission and distribution May increase transition risks in infrastructure and divert finance away from decentralized renewable electricity systems	Prioritizing renewable energy access in expansion and environmental merit dispatch reforms can increase grid flexibility and responsiveness Expanding electrification in buildings and transport can support decarbonization and a just transition

Note: SOE = State-owned enterprise.

Source: Authors.

Case Studies

Table 9 shows how a siloed approach to energy reforms can insufficiently address low-income households' needs. Table 10 shows how reforms can support shifts in the energy mix and reduce its carbon intensity but risk carbon lock-in.

TABLE 9 Shifting Domestic Heating Fuels in Policy-Based Operations: Mongolia

Ulaanbaatar Air Quality Improvement Program, Phase II Mongolia (2019–2020), ADB, US\$160 million loan	
PBO process and partnership context	
<p>Climate disasters are leading to migration and rapid population growth in peri-urban districts of Ulaanbaatar. Many households burn raw coal for heat, which contributes an estimated 80% of PM_{2.5} concentration in Ulaanbaatar, followed by transport at 10% and electricity generation at 5–6%. Welfare losses from pollution are estimated at 6–7% of annual GDP. The Air Quality Improvement series began in 2018 and aimed to increase the efficiency of a government program to decrease air pollution levels through 37 policy actions; for example, by banning raw coal in six peri-urban districts, energy-efficiency measures, expanding electric heating to 20% of households, and supplying coal briquettes to the remainder. It supports a combination of short- and long-term measures to reduce pollution from urban energy and transport systems and enhance climate resilience.</p>	
Risks and mitigation measures	
<p>To address public acceptance issues, local information/training centers and subsidies were established to make electric heating and briquettes accessible to low-income households. A potential income reduction risk for raw coal distributors is identified and partially mitigated by their incorporation into new supply chains. Staff point to investments that increase resilience of rural livelihoods to mitigate the risk of migration outpacing implementation.</p>	
Selected policy actions in PBO	Selected results indicators in PBO
E1.1 Establish regulatory framework to standardize fuel prices and incentives to distribute and sell an adequate supply of affordable coal briquettes	From 90 µg/m ³ in 2016, decrease average winter PM _{2.5} concentrations by minimum 30% in 2021
E1.3 Customize energy-efficiency building standard for Mongolia and train certifiers; operationalize the green financing mechanism to support low-cost loans for green heating products; and subsidize nighttime electric heating	State Budget 2020 to increase fund allocation from \$5 million in 2016; increase national annual spending for reducing air pollution by minimum 100% in 2021
Key findings	
<p>The significant challenges of decarbonizing heating in low-income informal settlements are not fully addressed. A study on the implementation of the raw coal ban highlighted challenges in implementation. Larger-scale measures to reduce air pollution need embedding in broader poverty alleviation efforts, as rapid urbanization continues.</p>	
Mitigating potential harm for Paris alignment	
<p>The PBO's proposal to meet remaining heat demand with coal briquettes represents a fossil fuel subsidy, the implementation of which did not correspond to poor households' views and needs. Larger-scale policy actions to promote a just heating transition including fiscal measures to raise revenues and redistribute them through more targeted support for low-income households could help bring about broader change.</p>	
Potential to support climate action	
<p>The PBO series could better enhance potential for climate action, including energy-efficiency measures and capacity building, as it had insufficient impact on incentives for electrification with renewable energy, especially for poor households. MDBs could further support the development of a larger-scale strategy for heat demand decarbonization by including concrete medium- and long-term measures. Equally supportive areas of MDB engagement could include building-code reforms indicating minimum energy performance standards and integrating provisions for renewable energy use.</p>	

Notes: GDP = Gross domestic product; PM_{2.5} = Particulate matter; µg/m³ = Micrograms/cubic meter; MDB = Multilateral development bank.

Source: Authors, based on ADB 2017, 2019, 2021b; Jun 2021; UNDP 2019.

TABLE 10 Shifting the Energy Mix Away from Heavy Fuel Oil: Senegal

**Multisectoral Structural Reforms Development Policy Financing, Phase III (MSSRDPFIII)
Senegal (2020–2021), WB, US\$100 million credit/grant**

PBO process and partnership context

This programmatic series began in 2017 to support growth in Senegal by “improving financial performance, reliability and facilitating equitable access” in the energy sector. MSSRDPFIII provides supplemental COVID-19 financing and aims to maximize private investment by strengthening the “regulatory, contractual and financial framework of gas transportation.” It complements the Country Strategy and the Country Partnership Framework’s strategy to end electricity subsidies in Senegal and increase gas from 0% of the energy mix in 2018 to 57% by 2024; further support is foreseen for the up/mid/down-stream gas value chain. Emissions reduction from the shift in energy mix is “projected” by staff to fall by more than the country’s NDC commitment.

Risks and mitigation measures

Political and governance risks remain high, and staff note that the track record of risks associated with electricity sector reforms contains failed attempts. Compared to previous phases in the series, institutional capacity and coordination challenges bear heightened risks, mitigated with “close supervision by field-based staff, complementary investment and [TA] operations” for gas and solar energy, and with highly concessional budget support.

Selected policy actions in PBO

Selected results indicators in PBO

E1.1	Submit draft gas law to Parliament, which provides for planning, regulation, and institutional arrangements for midstream and downstream gas subsectors	Decrease heavy fuel oil (HFO)–based generation capacity from 90% in 2015 to 55% in 2021
E1.3 and E1.4	Measures to enable development of the gas-to-power strategy, including an updated electricity master plan to integrate planned use of gas generation with renewables forming at least 29% of the energy mix by 2025; form a special-purpose vehicle through the energy SOE to build and operate the gas transportation system	Increase renewable energy installations from 0% of capacity in 2015 to 30% in 2021

Key findings

MSSRDPFIII supports a shift in Senegal’s energy mix away from its dependence on heavy fuel oil and toward relying on natural gas and renewables to support energy access goals and the energy sector’s financial performance. However, it does not consider lock-in risk.

Mitigating potential harm for Paris alignment

To ensure policies are sufficiently flexible to accommodate considerable uncertainties of gas investments across their lifetime, the series could further include transition planning. It does not include measures to mitigate against high uncertainties for gas development and revenue outlook, which would require long-term strategic planning and regular assessments for downside scenarios, including rapid decarbonization.

Supporting Paris alignment in oil-importing economies with limited fiscal space

This PBO shifts Senegal’s energy mix with concessional budget support and reforms that replace HFO-based electricity generation with gas and promote renewable integration and set targets for renewables in the electricity masterplan. It could enhance the use of the “intergenerational fund” mentioned in the country strategy to manage hydrocarbon revenues that have already been used in the past (oil revenues) to scale up investments in renewables. MDBs can further support Senegal to shift toward a Paris-aligned pathway by supporting feasibility studies to provide energy access with minimum fossil fuel inputs. Energy utility reform efforts could include fossil fuel phase-out strategies.

Notes: TA = Technical assistance; SOE = State-owned enterprise; MDB = Multilateral development bank.

Sources: Authors, based on WB 2020b; IEA 2022; Senegal 2018, 2019; 2018; WB 2013; 2020a.

4. Discussion and Recommendations

We present our key findings from Section 3 and outline challenges to Paris alignment identified in our desk review and staff interviews before making recommendations for different actors to align PBOs with the social and economic transformation required to achieve the Paris Agreement.

Key Findings on Potential for Significant Harm to Paris Alignment

Risk screening of policy actions by bank staff does not currently prevent potential harm to governments' ability to implement or enhance ambition in their NDCs and achieve climate neutrality. Our analysis in Section 3 reveals policy actions can create macro-fiscal path dependence in climate-vulnerable activities and delay urgent climate expenditures that would decrease overall transition costs.

- **MDB diagnostics are not sufficient to determine a country's macro-fiscal exposure to climate risks, and social impact assessments for policy actions do not yet consider the need for a just transition in climate-vulnerable sectors—for example, agriculture and fossil fuels.** In the Namibia case, climate-induced droughts disproportionately impacted low-income workers in agriculture and played a part in derailing the macro-fiscal stability needed to complete the series. In the Mongolia case study, a siloed approach was insufficient to address poor households' heating needs and bring about larger-scale change. The case of Senegal shows that PBOs should consider the full range of climate risks.
- **MDBs lack a systematic overview of partner countries' capacity for climate action, which is needed to prevent potential for harm and support effective mainstreaming.** This should include the strategic direction for climate action and indicate whether institutional structures, staff skills, and accountability mechanisms are fit for purpose. The Argentina case shows that MDBs can formulate policy actions by building consensus among stakeholders but require contextually relevant information to support climate action.

Challenges

Many climate risks are difficult to quantify in the short to medium time horizons commonly used in PBOs, partly due to insufficient granularity in NDCs and a lack of LTS. Yet, physical climate and transition risks are intensifying in severity and frequency with delayed action.

Bank guidance on E&S risks is inconsistently applied in PBOs and is not currently specific enough to prevent reforms from undermining climate action. Screening policy actions for E&S risks often only considers direct impacts, even when bank policy specifies the inclusion of indirect effects.

Macro-fiscal assessments do not usually include stock variables for natural capital (e.g., land and water) that help identify slower-onset risks and support equitable resource management. As these data are often limited, more qualitative assessments and additional stakeholder engagement or TA in partner countries may be required to inform policy decisions.

Recommendations for Sector and Country Managers

- Systematically support partner-country strategies with TA to integrate climate risks into long-term macro-fiscal assessments and capacity for climate action in institutional assessments, including with robust decision-making approaches.
- Create guidance to screen potential for significant harm to Paris alignment in policy actions and mainstream climate considerations in social impact assessments; support consistent application by staff with training and accountability mechanisms managed by climate expertise.

Key Findings on Maximizing Transformative Potential for Paris Alignment

Analysis of policy actions and case studies indicate most PBOs, certainly all that aim to support longer-term macro-fiscal stability, can support Paris alignment and countries' development objectives.

- **The macro-fiscal overview, country dialogue, and development partner coordination that determine how PBOs are formulated affords an opportunity to support ambitious climate action and maximize development impact.** The case of Morocco shows that banks already support ambitious climate action through domestic policy coordination in PBOs and harmonize across development partners for effectiveness, but this is not systematic.
- **Evidence of reform benefits remains limited for climate action and requires stewards that generate lessons learned.** None of the MDBs have distilled lessons learned for climate action in PBOs. The WB and IMF are integrating climate change more systematically in their respective macro-fiscal assessments, but these are relatively recent developments.
- **MDBs stipulate that NDCs be included in country strategies, but this includes their mere mention and does not require mainstreaming in development plans that mainly inform bank activities.** The Philippines shows how PBOs—in this case, one specialized for disaster risk mitigation—can mainstream climate resilience in public institutions alongside other priorities like gender.

Challenges

Budget support is usually counted against partner countries' fixed envelopes, making it fungible with project finance and other forms of bank support.

MDBs attach policy conditions to maximize the impact of investment loans, but climate investments are still undermined by policy instruments like fossil fuel subsidies that create market distortions.

Budget support is mostly provided as a sovereign loan, and some partner countries, including those systemically vulnerable to climate change, lack the fiscal space necessary to qualify. To increase the provision of global public goods, budget support should be accessible through PBOs that support ambitious climate action.

Measuring development effectiveness in PBOs is complex but nonetheless central to linking ex-ante assessments with outcomes that support structural resilience and a just transition to climate neutrality in partner countries. Reforms need to be country-owned and credibly linked to results indicators for Paris alignment, and TA should be readily available to meet countries' needs.

Recommendations for Project Teams

- Include at minimum, one climate results indicator for Paris alignment in every PBO and support links to policy actions through rapidly deployable TA and regular evaluations for effectiveness.
- Systematically identify potential cofinancing outside of fixed MDB country envelopes to support climate action in PBOs, including from bilateral DFIs and climate funds.
- Revise the joint MDB method to require that policy actions used to report budget support as climate finance support a just transition to climate neutrality and long-term structural resilience.

Recommendations for Shareholders

- Provide more concessional budget finance (especially grants) to partner countries to implement reforms that support long-term structural resilience and a just transition to climate neutrality by 2050, potentially with PBOs specialized for this purpose.
- Establish a multidonor trust fund that supports MDBs and development partners to align reforms and investments with the Paris Agreement through country platforms.

Appendix A: Data Sources and Policy Actions in Selected Areas

Unless otherwise noted, figures for MDBs' finance commitments in 2015–19 are based on the OECD Creditor Reporting System (CRS) database, which follows the calendar year (OECD 2022b). These data are reported to the organization by banks and allow for improved comparability across these institutions, especially when attributing financing to certain sectors or purposes. As a result, however, figures might vary slightly from MDBs' own reporting, which apply their internal data procedures. Figures on MDBs' climate finance in 2015–19 are based on the OECD climate-related development finance dataset (OECD 2022a). These data maintain the MDBs' joint climate components methodology (AfDB et al. 2021).

Sources for 2020 Commitments

As OECD data are not yet available, 2020 figures for policy-based finance were compiled from three different sources, depending on the bank, as follows:

- Data for the ADB and IDB are derived from the International Aid Transparency Initiative (IATI) Registry and include 2020 commitments for general budget support or sector budget support reported as of March 23, 2021 (IATI 2022).
- Data for the WB are derived from its Projects & Operations page as of March 26, 2021 (WBG 2022).
- Data for the AfDB are derived from its data portal as of May 10, 2021 and converted to US\$ using its 2020 exchange rates for the month each project began (AfDB 2022a, 2022b).

OECD CRS codes are applied to these operations for comparability with previous years (OECD 2022c). MDBs' overall commitments in 2020, featured in Figure 2, are based on aggregate figures from annual reports for the ADB, AfDB and IDB, which follow the calendar year (ADB 2021a; AfDB 2021; IDB 2021a). We use a two-year average of the World Bank's (IBRD and IDA) fiscal year reporting for 2020 and 2021 to estimate the bank's total commitments in the 2020 calendar year (WB 2022c).

Analysis of Policy Actions

The policy actions analysis in Section 4 is based on a representative sample of operations (90 percent confidence interval and 10 percent margin of error) in each focus area, stratified by bank and year in 2018–20, and randomly selected. These data use the same data sources explained in the previous subsection. We compiled all the policy actions for each operation, formulated categories for those relevant to the focus area being examined, and excluded policy actions that held no relevance. Further information on how these categories were defined and the associated mapping of potential for harm or missed opportunities is available upon request.

Public Finance Management

Our mapping of PFM reforms in PBOs is based on 396 policy actions across 53 operations in 2018–20, stratified by MDB and year. These operations were issued by the WB (53 percent in the sample), ADB (40 percent) and, to a lesser degree, the IDB (8 percent). Data availability limited the identification of PFM-relevant operations in the AfDB, though this is partly offset by the inclusion of two AfDB case studies (Table 3 and Table 4).

Public Sector Management

Our mapping of public sector management reforms in PBOs is based on 385 policy actions across 38 operations in 2018–20, stratified by MDB and year. These operations were issued by the WB (63 percent of the sample), ADB (24 percent), AfDB (8 percent), and IDB (5 percent).

Energy Sector Policy

Our mapping of energy sector reforms is based on 333 policy actions across 39 operations from 2018 to 2020, stratified by MDB and year. These operations are issued by the WB (78 percent in the sample), ADB (12 percent), and to a lesser degree the IDB (8 percent). It includes one PBO by the AfDB in 2020.

Climate Finance Reporting in Policy-Based Operations: Madagascar Example

TABLE A-1 Climate Finance Reported by the World Bank for Madagascar COVID-19 Response

Policy Area	Climate Cobenefits	Climate finance (2020 prices, US\$)
Financial policy and administrative management	Adaptation	\$217,500
	Mitigation	\$652,500
Public sector policy and administrative management	Adaptation	\$217,500
	Mitigation	\$652,500
Social protection	Adaptation	\$202,500
	Mitigation	\$607,500
Energy policy and administrative management	Adaptation	\$105,000
	Mitigation	\$315,000
Health policy and administrative management	Adaptation	\$7,500
	Mitigation	\$22,500
Total	25% Adaptation	\$3,000,000
	75% Mitigation	

Source: OECD (2022a) Climate-Related Development Finance (database).

TABLE A-2 Policy Actions and Results Indicators for Madagascar COVID-19 Response

Policy Action	Results indicator	Baseline	Target
Policy Actions and Results Indicators for Madagascar COVID-19 Response: Adopt a multisectoral national emergency plan, which establishes a governance structure at central and decentralized levels for the COVID-19 emergency response and lays out a strategy to scale up and accelerate the implementation of health and social protection project	Creation of regional operational centers	None	22
	Testing capacity of accredited laboratories	None	200,000
	Number of beneficiaries of cash transfer programs disaggregated by gender and youth status	250,000	500,000
Establish a dedicated COVID-19 fund with an appropriate control and accountability framework	Publication of monthly financial statements within 15 days from the end of each reporting month	None	Reports published monthly until closure
Simplify due diligence for opening individual e-money accounts	Number of e-money account openings	None	150,000
Adopt a consolidated strategy to safeguard jobs and alleviate immediate financing pressures for companies, including, inter alia: scaled-up interventions to reinforce human capital; and enhanced access to finance and to domestic and international markets	Number of workers benefiting from training disaggregated by gender	None	200,000
	Number of MSMEs benefiting from subsidized loan programs	None	20,000
Implement targeted measures to allow financial institutions to extend debt repayment schedules and provide an additional credit line through the Central Bank	Loan amounts rescheduled and deducted from bank reserve requirements	0	MGA 500 billion
Adopt a new connection policy in the energy SOE and a new tariff structure to improve social fairness and efficiency of electricity pricing in the power sector regulator	New lifeline customers having access to the grid	17,000	50,000
Expand reporting for public debt statistics to include, inter alia: debts of all majority-owned SOEs, financial conditions of each new external loan contract, and list of contingent liabilities related to on-lending and public guarantees	Coverage of debt statistics in the Debt Statistics Bulletin	Central government only	Public sector, including 90% of majority-owned SOEs

Notes: MSME = Micro, small, and medium enterprises; SOE = State-owned enterprise; MGA = Malagasy ariary.

Source: WB 2021c.

Endnotes

1. The African Development Bank Group, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank, and the World Bank Group.
2. The MDB joint approach is based on six building blocks: (1) alignment with mitigation goals; (2) adaptation and climate-resilient operations; (3) accelerated contribution to the transition through climate finance; (4) engagement and policy development support; (5) reporting; and (6) alignment of internal activities.
3. Future reference to the MDBs in this paper refers exclusively to those that have committed to the joint framework for Paris alignment and provide policy-based financing (the AfDB, ADB, IDB, and WBG), unless otherwise stated.
4. The AfDB refers to policy-based activities as program-based operations. The ADB and IDB primarily refer to them as policy-based lending. The WBG uses the terms *development policy financing* or *development policy operations*.
5. The African Development Bank Group, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank, and the World Bank Group.
6. The MDB joint approach is based on six building blocks: (1) alignment with mitigation goals; (2) adaptation and climate-resilient operations; (3) accelerated contribution to the transition through climate finance; (4) engagement and policy development support; (5) reporting; and (6) alignment of internal activities.
7. Future reference to the MDBs in this paper refers exclusively to those that have committed to the joint framework for Paris alignment and provide policy-based financing (the AfDB, ADB, IDB, and WBG) unless otherwise stated.
8. The AfDB refers to policy-based activities as program-based operations. The ADB and IDB primarily refer to them as policy-based lending. The WBG uses the terms *development policy financing* or *development policy operations*.
9. Randomly selected for a 90 percent confidence interval and 10 percent margin of error.
10. Like policy-based operations themselves, the policy and institutional reforms attached go by a variety of names. This paper uses the term *policy actions*, but they are also referred to as *prior actions* or *policy conditions*.
11. These PBOs require an adequate disaster risk management system in the partner country and might factor natural disasters into macro-fiscal stability assessments.
12. In other words, global net-zero CO₂ by 2050, with limited overshoot to achieve the Paris Agreement's 1.5°C temperature goal.
13. It is worth noting that legal frameworks in partner countries can prevent reporting on use of proceeds for budget support.
14. Other MDBs have facilities to support NDCs and LTS like the IDB's NDC Invest (2021b), however, such as the WB's Climate Support Facility (2022b).
15. MDBs generally classify negative environmental effects as high risk (i.e., likely to cause significant, irreversible damage); substantial risk (i.e., likely to cause local and/or short-term damage, which can be mitigated against); and moderate/low risk (or likely to cause negligible damage).
16. Randomly selected for a 90 percent confidence interval and 10 percent margin of error.
17. In 2014, Chad borrowed more than US\$1 billion, or 10 percent of the country's GDP, from private creditor Glencore for its petroleum SOE (FT 2014). Despite being a resource-backed loan fully collateralized with future crude oil cargoes, Chad paid over 8 percent in total costs after the loan was restructured in 2015, until another renegotiation of the loan terms in 2018 (Estevão, Rivetti, and Mihalyi 2022).
18. Randomly selected for a 90 percent confidence interval and 10 percent margin of error.
19. Randomly selected for a 90 percent confidence interval and 10 percent margin of error.

References

- ADB (Asian Development Bank). 2009. "Safeguard Policy Statement." Manila. <https://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf>.
- ADB. 2017. "Mongolia: Country Partnership Strategy (2017–2020)." Manila. <https://www.adb.org/documents/mongolia-country-partnership-strategy-2017-2020>.
- ADB. 2018. "Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design." Manila.
- ADB. 2019. "Ulaanbaatar Air Quality Improvement Program—Phase 2." <https://www.adb.org/projects/53028-001/main>.
- ADB. 2020. "Philippines: Disaster Resilience Improvement Program." Manila. <https://www.adb.org/projects/54022-001/main>.
- ADB. 2021a. *Annual Report 2020*. Manila.
- ADB. 2021b. "Mongolia: Country Partnership Strategy (2021–2024)." Manila. <https://www.adb.org/documents/mongolia-country-partnership-strategy-2021-2024>.
- AfDB (African Development Bank). 2015. "Environmental and Social Assessment Procedures (ESAP)." Abidjan, Côte d'Ivoire. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/SSS_%E2%80%93vol1_%E2%80%93Issue4_-_EN_-_Environmental_and_Social_Assessment_Procedures__ESAP_.pdf.
- AfDB. 2018. "Namibia—Economic Governance and Competitiveness Support Programme—Phase II (EGCSP II)." Abidjan, Côte d'Ivoire. <https://projectsportal.afdb.org/dataportal/VProject/show/P-NA-KAO-002>.
- AfDB. 2019. "Morocco—Industrialization Acceleration Support Programme in Morocco—Phase II (PAAIM II)." Abidjan, Côte d'Ivoire. <https://projectsportal.afdb.org/dataportal/VProject/show/P-MA-K00-014>.
- AfDB. 2021. *Annual Report 2020*. Abidjan, Côte d'Ivoire.
- AfDB. 2022a. "AfDB Data Portal." <https://projectsportal.afdb.org/dataportal/>.
- AfDB. 2022b. "Exchange Rates." Abidjan, Côte d'Ivoire. <https://www.afdb.org/en/documents/financial-information/exchange-rates>.
- AfDB, ADB, AIIB, EBRD, EIB, IDB, IsDB, NDB, and WBG (African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, Islamic Development Bank, National Development Bank, and the World Bank Group). 2018. "The MDBs' Alignment Approach to the Objectives of the Paris Agreement: Working Together to Catalyse Low-Emissions and Climate-Resilient Development." Washington, DC: World Bank. <https://pubdocs.worldbank.org/en/784141543806348331/Joint-Declaration-MDBs-Alignment-Approach-to-Paris-Agreement-COP24-Final.pdf>.
- AfDB, ADB, AIIB, EBRD, EIB, IDBG, IsDB, NDB, and WBG. 2021. "2020 Joint Report on Multilateral Development Banks' Climate Finance." Washington, DC: World Bank. <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8df1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf>.
- CVF (Climate Vulnerable Forum). 2022. "Members." <https://thecvf.org/members/>.
- E3G (Third Generation Environmentalism). 2022. "Multilateral Development Banks." E3G Public Bank ClimateTracker Matrix—an Assessment of the Paris Agreement Alignment of Major Public Development Banks. <https://www.e3g.org/mdb-matrix/>.
- Estevão, M., D. Rivetti, and D. Mihalyi. 2022. "Developing Economies Should Think Hard about Taking On Resource-Backed Loans." 2022. Washington, DC: World Bank.
- FT (*Financial Times*). 2014. "Glencore Arranges \$1bn Oil Loan for Chad." June 16, 2014.
- IATI (International Aid Transparency Initiative). 2022. "D-Portal." <http://d-portal.org/ctrack.html#view=search>.
- IDB (Inter-American Development Bank). 2016. "Design and Use of Policy-Based Loans at the IDB." Technical Note. Washington, DC.
- IDB. 2018. "AR-L1283: Program to Drive Growth." Washington, DC. <https://www.iadb.org/en/project/AR-L1283>.
- IDB. 2020. "Environmental and Social Policy Framework." Washington, DC. <https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-110529158-160>.
- IDB. 2021a. *Annual Report: The Year in Review 2020*. Washington, DC.
- IDB. 2021b. "NDC Invest." About Us. 2021. Washington, DC. https://www.ndcinvest.org/EN/about_us.php.
- IDEV (Independent Development Evaluation). 2018. "Independent Evaluation of AfDB's Program Based Operations (2012–2017)." Abidjan, Côte d'Ivoire. <http://idev.afdb.org/en/document/independent-evaluation-afdb-program-based-operations-2012-2017>.
- IEA (International Energy Agency). 2022. "Clean Energy Transitions in the Sahel." *Clean Energy*, 184.
- IMF (International Monetary Fund). 2019. "Chad: Staff Report for the 2019 Article IV Consultation." Washington, DC. <https://www.imf.org/en/Publications/CR/Issues/2019/07/31/Chad-Staff-Report-for-the-2019-Article-IV-Consultation-Fourth-Review-under-the-Extended-48547>.
- IMF. 2022a. "IMF Executive Board Approves Establishment of the Resilience and Sustainability Trust." Washington, DC.

2022. <https://www.imf.org/en/News/Articles/2022/04/18/pr22119-imf-executive-board-approves-establishment-of-the-rst>.

IMF. 2022b. “List of LIC DSAs for PRGT-Eligible Countries—as of May 31, 2022.”

Jun, S. 2021. “Is the Raw Coal Ban a Silver Bullet to Solving Air Pollution in Mongolia? A Study of the Mongolian Government’s Air Pollution Reduction Policies and Recommendations in the Context of COVID-19.” Princeton, NJ: Princeton University. <https://jpia.princeton.edu/news/raw-coal-ban-silver-bullet-solving-air-pollution-mongolia-study-mongolian-governments-air#:~:text=In%20response%20to%20growing%20public,a%20subsidized%20price%20close%20to>.

Larsen, G., C. Smith, N. Krishnan, S. Bartosch, and H. Fekete. 2018. “How the Multilateral Development Banks Can Better Support the Paris Agreement.” Washington, DC: World Resources Institute.

Mainhardt, H. 2019. “World Bank Group Financial Flows Undermine the Paris Climate Agreement: The WBG Contributes to Higher Profit Margins for Oil, Gas, and Coal.” Sassenberg, Germany: Urgewald. https://urgewald.org/sites/default/files/World_Bank_Fossil_Projects_WEB.pdf.

McCandless, B., C. Neunuebel, S. Liu, V. Laxton, A. Kachi, and A. Gebel. 2021. “MDBs Pledged to Align Financial Flows with the Paris Agreement. They’re Not There Yet,” November. Washington, DC: World Resources Institute. <https://www.wri.org/insights/mdbs-pledged-align-financial-flows-paris-agreement-theyre-not-there-yet>.

OECD (Organisation for Economic Co-operation and Development). 2005. “Paris Declaration and Accra Agenda for Action.” Paris. <https://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>.

OECD. 2022a. “Climate Change: OECD DAC External Development Finance Statistics—OECD.” Paris. <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm>.

OECD. 2022b. “Creditor Reporting System (CRS).” Database. OECD.Stat. <https://stats.oecd.org/Index.aspx?DataSetCode=crs1>.

OECD. 2022c. “DAC and CRS Code Lists—OECD.” <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dacandcrscodelists.htm>.

Recourse. 2021. “World Bank’s Development Policy Finance 2015 to 2021: Stuck in a Carbon Intensive Rut.” Amsterdam. https://www.re-course.org/wp-content/uploads/2021/12/World-Bank%E2%80%99s-Development-Policy-Finance-2015-to-2021-Stuck-in-a-carbon-intensive-rut_final.pdf.

Riahi, K., C. Bertram, D. Huppmann, J. Rogelj, V. Bosetti, A.-M. Cabardos, A. Deppermann, et al. 2021. “Cost and Attainability of Meeting Stringent Climate Targets without Overshoot.” *Nature Climate Change* 11 (12): 1063–69. doi:10.1038/s41558-021-01215-2.

Senegal. 2018. “Note Synthétique—Strategie ‘Gas to Power.’” Dakar: Ministère du Pétrole et des Energies. https://sunupetrole.com/wp-content/uploads/2020/09/note_synthetique_strategie_gas_to_power.pdf.

Senegal. 2019. Loi Portant Code Petrolier. <https://www.dri.gouv.sn/sites/default/files/LOI/LOI%202019/L-2019-03.pdf>.

UNDP (United Nations Development Programme). 2019. “Air Pollution in Mongolia: Opportunities for Further Actions.” New York. <https://www.undp.org/mongolia/publications/air-pollution-mongolia-opportunities-further-actions>.

UNFCCC (United Nations Framework Convention on Climate Change). 2022. “Glasgow Climate Pact.” https://unfccc.int/sites/default/files/resource/cma2021_10_add1_adv.pdf.

WB (World Bank). 2004. “Good Practice Notes for Development Policy Lending.” Washington, DC. https://web.worldbank.org/archive/website01031/WEB/IMAGES/IG_GPN.PDF.

WB. 2013. “Senegal—Country Partnership Strategy for the Period FY13–FY17.” Washington, DC: World Bank Group. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/527551468103763222/senegal-country-partnership-strategy-for-the-period-fy13-fy17>.

WB. 2017. “Bank Policy: Development Policy Financing.” Washington, DC. <https://ppfdocuments.azureedge.net/b98d432b-7471-441b-9f39-36b7c380bd05.pdf>.

WB. 2019. “Chad Second Programmatic Economic Recovery and Resilience Development Policy Financing.” Washington, DC. <https://documents1.worldbank.org/curated/en/428811579575639441/pdf/Chad-Second-Programmatic-Economic-Recovery-and-Resilience-Development-Policy-Financing-Project.pdf>.

WB 2020a. “Country Partnership Framework for the Republic of Senegal for the Period FY20–FY24.” Washington, DC: World Bank Group. <https://openknowledge.worldbank.org/handle/10986/33439>.

WB. 2020b. “Third Multi-sectoral Structural Reforms Development Policy Operation: Supplemental Financing.” Washington, DC. <https://projects.worldbank.org/en/projects-operations/document-detail>.

WB. 2021a. “Climate Change Action Plan 2021–25: Supporting Green, Resilient, and Inclusive Development.” Washington, DC. <https://openknowledge.worldbank.org/bitstream/handle/10986/35799/CCAP-2021-25.pdf?sequence=2&isAllowed=y>.

WB. 2021b. "Country Climate and Development Reports (CCDRs)." Washington, DC: World Bank Group. <https://thedocs.worldbank.org/en/doc/c8781cc9ab9e9286930475da27f0903a-0020012021/original/COP26-ClimateBriefs-CCDRs-Final-2610.pdf>.

WB. 2021c. "Madagascar Covid-19 Response DPO." Washington, DC. <https://projects.worldbank.org/en/projects-operations/document-detail>.

WB. 2022a. "2021 Development Policy Financing Retrospective: Facing Crisis, Fostering Recovery." Washington, DC. <https://documents1.worldbank.org/curated/en/558621648492783178/pdf/2021-Development-Policy-Financing-Retrospective-Facing-Crisis-Fostering-Recovery.pdf>.

WB. 2022b. "Climate Support Facility: Fast-Forward Climate Action." Washington, DC. <https://www.worldbank.org/en/programs/climate-support-facility/ndc-and-ltc-support>.

WB. 2022c. "Fiscal Year Data." Washington, DC. <https://www.worldbank.org/en/about/annual-report/fiscal-year-data>.

WBG (World Bank Group). 2015. "2015 Development Policy Financing Retrospective: Results and Sustainability." Washington, DC. <https://pubdocs.worldbank.org/en/420441457100264616/DevelopmentPolicyRetrospective2015.pdf>.

WBG. 2022. "Projects & Operations | The World Bank." Washington, DC. <https://projects.worldbank.org/en/projects-operations/projects-home>.

World Bank, IEG (Independent Evaluation Group). 2015. "Managing Environmental and Social Risks in Development Policy Financing." IEG Learning Product. Washington, DC: World Bank. https://ieg.worldbankgroup.org/sites/default/files/Data/reports/Managing_ES_Risks_in_DPF.Sept18.2015.pdf.

Acknowledgments

Carolyn Neunuebel conceptualized the research aims and methods, led data collection, created visualizations, conducted interviews, and drafted the original and final manuscripts with input from all authors. Anja Gebel managed and coordinated research activities, collected data, conducted interviews, and provided the original draft and analysis for Public Sector Management Reforms (Section 3.2). Valerie Laxton supervised overall direction and planning, managed research activities, conducted interviews, and critically revised and verified the final manuscript. Aki Kachi coordinated research activities and provided the original draft and analysis for Energy Sector Reforms (Section 3.3).

David Ryfisch (GW) and Caitlin Smith (WRI) were instrumental in overall direction and planning. The authors are also grateful to valuable research contributions from Alexandra Goritz (GW), Katharina Lütkehermöller (NCI), Bradley McCandless (Hecate Grid), Lauren Sidner (U.S. Department of State), and Timothé Subtil (NCI). Romain Warnault and Bill Dugan (WRI) produced and designed the publication, which was copyedited by Shazia Amin.

Staff and management at the AfDB, ADB, IDB, and WB contributed generous amounts of time to share information about their work, participate in meetings to discuss this research, review this working paper, and contribute to panel discussions with the consortium. The authors are also grateful to insightful comments and reviews from the following individuals: Shuang Liu, Carter Brandon, Preeti Bhandari, Gaia Larsen, Giulia Christianson, Claudio Alatorre Frenk, Balgis Osman-Elasha, Jon Sward, Heike Mainhardt, Alice Pauthier, Sarah Bendahou, and Ian Cochran.

This working paper received financial support from the Federal Ministry for Economic Cooperation and Development of Germany (BMZ). The authors are solely responsible for the content of this publication.

Supported by:



Bundesministerium für
wirtschaftliche Zusammenarbeit
und Entwicklung

About the Authors

Carolyn Neunuebel

Research Associate—Sustainable Finance Center, WRI

CONTACT: Carolyn.Neunuebel@wri.org

Anja Gebel

Policy Advisor—Development Banks and Climate, Germanwatch

CONTACT: Gebel@germanwatch.org

Valerie Laxton

Senior Associate—Sustainable Finance Center, WRI

CONTACT: Valerie.Laxton@wri.org

Aki Kachi

NewClimate Institute

CONTACT: A.Kachi@newclimate.org

About WRI

World Resources Institute is a global research organization that turns big ideas into action at the nexus of environment, economic opportunity, and human well-being.

Our Challenge

Natural resources are at the foundation of economic opportunity and human well-being. But today, we are depleting Earth's resources at rates that are not sustainable, endangering economies and people's lives. People depend on clean water, fertile land, healthy forests, and a stable climate. Livable cities and clean energy are essential for a sustainable planet. We must address these urgent, global challenges this decade.

Our Vision

We envision an equitable and prosperous planet driven by the wise management of natural resources. We aspire to create a world where the actions of government, business, and communities combine to eliminate poverty and sustain the natural environment for all people.

About Germanwatch

Following the motto of *Observing. Analysing. Acting.*, Germanwatch has been actively promoting global equity and livelihood preservation since 1991. We focus on the politics and economics of the Global North and their world wide consequences. The situation of marginalized people in the Global South is the starting point for our work. Together with our members and supporters, and with other actors in civil society, we strive to serve as a strong lobbying force for sustainable development. We aim at our goals by advocating for prevention of dangerous climate change and its negative impacts, for guaranteeing food security, and for corporate compliance with human rights standards.

About NewClimate

NewClimate Institute supports research and implementation of action against climate change around the globe. We generate and share knowledge and ideas on international climate negotiations, tracking climate action, climate and development, climate finance, and carbon market mechanisms. We connect up-to-date research with real-world decision-making processes, making it possible to increase ambition in acting against climate change and contributing to finding sustainable and equitable solutions.