INTEM/TEMA
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Reporting on Letter of Appropriation - Sida's analysis and lessons learned for additional measures to increase alignment of Swedish bilateral development cooperation with the Paris Climate Agreement

1. Introduction

In the 2020 letter of appropriation , Sida was instructed by the government to carry out the following action:

Sida will analyse and explain what lessons the authority has learned so far and what further measures are needed to ensure Swedish bilateral development cooperation increases alignment with the Paris Climate Agreement.

The Paris Agreement was adopted at the UN Climate Change Conference (COP 21) in Paris in 2015, and its objectives warrant a transition in all sections of society and the economy. The way forward in aligning with the Paris Agreement is still under discussion. The goal of Sweden's international development cooperation is to contribute to better living conditions for people living in poverty and oppression. Sida has decided to carry out in-depth analysis of areas considered important to perform the assignment. The analyses provide valuable knowledge about functionality and identify areas where the agency can improve results through further measures.

The report consists of a background chapter that provides an overview of the Paris Agreement and the assumptions used for the purpose of Sida's analyses. This is followed by a description of the agency's work on environmental and climate integration, as one of five perspectives[1] that guide its operations. The tools currently available to Sida that enable the integration of climate change adaptation and emissions reduction are described, as well as existing goals and operational safeguards. Then follows an in-depth and analytical section regarding three relevant areas where Sida describes lessons learned and presents an analysis against the background of the Paris Agreement and alignment. To perform the assignment, Sida has chosen to focus on the multi-bilateral support and an analysis of interventions that are not considered climate relevant. In addition, the transformative potential of interventions has also been analysed in Sida's assessment process. Following coordination with the Foreign Ministry, the report takes into account all development cooperation han-

[1] The five perspectives are the poverty perspective, the rights perspective, the conflict perspective, the gender perspective, and the environmental and climate perspective.

dled by Sida, both bilateral and multi-bilateral. Finally, some conclusions and suggestions are made regarding possible ways forward for increasing alignment of development cooperation with the Paris Agreement.

Annex 1 to the letter complements the abovementioned assignment by providing background to the importance of rapidly reducing the use of fossil energy, contributing to fossil-free societies and climate adaptation. The climate policy bill (*Prop. 2019/20:65)* presented in autumn 2019 and adopted by the Riksdag in June 2020 includes a provision which Sida believes should be addressed in addition to the mandate in the letter of appropriation; "In addition to the targeted climate efforts in bilateral development cooperation, it is of great importance that other elements of development cooperation are also aligned with the objectives of the Paris Agreement and thus *do not include support for fossil fuels."* The annex also presents examples of experiences and lessons learned from Sida's development cooperation and humanitarian aid related to energy.

2. Background and assumptions

The Paris Agreement was adopted at the United Nations Climate Change Conference (COP 21) in Paris in 2015. Article 2 sets out the main objectives[2]:

a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

In order to achieve these objectives, all sections of society and the economy must contribute to the transition.

The way forward to aligning with the Paris Agreement is still under discussion. This is despite the fact that many different actors around the world have stated that their activities are already compliant. Various analyses have highlighted two key features of the agreement: the long-term pathways towards low greenhouse gas emissions and the construction of nation-led processes towards the achievement of the Paris Agreement objectives.[3]

[2] https://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf
[3] Cochran and Pauthier (2019), p 9 – 12.

Numerous attempts by various actors to interpret the concept of being *aligned with the Paris Agreement* have been made (see, for example, the World Resources Institute (WRI), [4]Third Generation Environmentalisms (E3G)[5]) and the Institute for Climate Economics (I4CE).[6]

Of particular relevance to Sida as a development cooperation actor is the report that the OECD produced in close cooperation with Sida, *Aligning Development Co-operation and Climate Action: The Only Way Forward*[7]. In addition to identifying the main challenges and key measures, a conceptual framework for the design, implementation and review of measures is presented to clarify how development co-operation can align with the Paris Agreement. According to the report, development measures aligned with the Paris Agreement are characterised by the following criteria:

1. TRANSFORMATIVE. Does not undermine the Paris Agreement, but contributes to the necessary transition. Activities should not only "do no harm" but also contribute positively to a systematic shift towards low greenhouse gas emissions and climate resilient development.

2. CATALYTIC. Catalyzes countries' transitions to emissions reduction and climate resilient development. Targeted funding, policy support and capacity development to kick-start broad change – in particular by influencing other sources of funding, including from the private sector, should be used.

3. SUPPORTING. Supports the short- and long-term processes under the Paris Agreement. It should support the creation, improvement and implementation of the Paris Agreement processes (in particular Nationally Determined Contributions (NDCs) and long-term emission reduction strategies), while helping to integrate countries with sectoral and comprehensive economic development plans.

4. RESPONDING. Responds and reacts proactively to research and opportunities to meet the needs of developing countries. The measure should proactively respond to new research on climate change and its impact, and support innovative solutions to meet development needs.

This framework forms the basis for the analysis of increasing Sida's transformative potential in development interventions (Chapter 4.3).

The Paris Agreement does not weigh emission reduction or adaptation before one or the other. Many of Sida's partner countries have relatively small contributions to global emissions, while the impact of climate change is expected to be major. It is

[4]https://www.wri.org/publication/toward-paris-alignment
[5]https://www.e3g.org/news/media-room/multilateral-development-banks-move-away-from-fossil-fuels
[6]https://www.i4ce.org/wp-core/wp-content/uploads/2019/09/I4CE•Framework_Alignment_Financial_Paris_Agreement_52p.pdf
[7]http://www.oecd.org/development/aligning-development-co-operation-and-climate-action-5099ad91-en.htm

therefore important to bear in mind Sida's mandate. The goal of Sweden's international development cooperation is to contribute to better living conditions for people living in poverty and oppression. As a result, half of Sida's climate assistance, which accounts for about 19% of Sida's total aid, is classified as adaptation, a quarter as emission reductions and a quarter as adaptation combined with emission reductions (cross-cutting).[8] A focus on adaptation within Sida's operations is important to meet countries' new conditions and needs in a changing climate.

Given the uncertainty regarding definitions, ways forward and concrete examples of what it means to achieve coherence with the Paris Agreement, Sida has tried in this document to describe lessons learned from the contribution made by Swedish development cooperation. The starting point has therefore been Article 2(1)(c) of the agreement: *Financial flows shall be made consistent with a path towards low greenhouse gas emissions and climate resilient development.* The focus of the analysis is on the overall flow of funding and the extent to which total aid may be more in line with the Paris climate agreement. In other words, no distinction has been made between adaptation or emission reduction.

The long-term nature of the agreement in finding ways to achieve its objectives means that the necessary socio-economic changes need to be transformative. At the same time, the countries themselves should be the actors to bring about bottom-up rather than top-down change. All countries that have signed the agreement must contribute to its fulfilment according to ability and with an increasing ambition over time. Accordingly, it is of interest to highlight Sida's potential contribution to this transformative development.

3. Sida's work on climate and environment and climate integration

Sida's mission statement for 2023 states that Sida "creates the conditions for the poorest and most vulnerable people to shape their lives and future" and in the vision that "every person's right and opportunity to live a dignified life" (updated information was decided on Sida's vision in September 2018). Our surrounding environment, with well-functioning ecosystems and a stable climate, comprises the basis for development and well-functioning societies. Sustainable management of the earth’s resources is, therefore, a condition for reducing poverty and for sustainable societies, for current and future generations. Environmental sustainability is also closely linked to other cross-issues, such as the rights perspective, gender equality, and the conflict perspective.

Current Swedish environmental legislation, including regulation (2009:907) on environmental management in government agencies, regulation (2018:1428) on climate adaptation work by authorities and the government's governance of Sida including the government's instruction (SFS 2015:378) and policy framework for development cooperation, form the basis for Sida's environmental work, including

[8] https://www.sida.se/globalassets/sida/eng/partners/green-tool-box/one-pager---climate-finance-reporting-2017-2018.pdf

measures to address climate change. Environmental sustainability is also clearly reflected – directly and indirectly – in the 17 Global Sustainable Development Goals adopted at the 2015 UN Summit.

There is no stated goal at present for Sida's activities to be aligned with the Paris Agreement. Sida is aiming towards this partly through its environmental management system's environmental policy and action plan.

The environmental management system clearly states that Sida's environmental work in long-term development cooperation and humanitarian aid shall be performed in a way that:

- Environmental aspects, including climate risks, are consistently taken into account and integrated into the planning, implementation and follow-up of strategies and contributions;
- The ambition is raised in terms of the share and volume of support for environmentally sustainable development, both in the grants and through mobilised capital and other financial instruments;
- Environmental sustainability is an important dialogue issue in collaboration with partners at all levels, in Sida's role as an expert authority, and in Sida's external communication.
- Sida's own environmental capacity is constantly being developed, and the staff's competence is continuously improved.

Finally, and as part of Sida's environmental management system, Sida's direct negative environmental impact will be continuously reduced, with continued work for a greener office and a particular focus on reducing greenhouse gas emissions due to travelling.

All staff at Sida have an important role in implementing Sida's environmental policy. However, Sida's management – through the Director-General and the management – has the overall responsibility for ensuring that the environmental and climate perspective is fully integrated into operations.[9]

Sida's Statistical Manual and Thematic Support (Green Toolbox[10]) provide guidance on how to achieve and track, at component level, integration of the environment and climate. The Statistical Handbook and the government's instructions describe that the environmental and climate perspective should be mainstreamed throughout Sida's operations and Sida is committed to protecting the environment and to proactively promote environmentally sustainable development.

The environmental marker (OECD DAC standard) is used at Sida to track the integration of the environmental and climate perspective into contributions. The marker aims to highlight the contribution of the intervention to environmentally sustainable development in the beneficiary country, area or relevant target groups and/or include specific interventions to integrate environmental aspects into other develop-

[9] Sida's environmental policy 2017-06-13

[10] https://www.sida.se/English/partners/methods-materials/green-tool-box/

ment areas through institutional and/or capacity development. An environmental assessment shall be carried out for each contribution in accordance with the Statistical Handbook[11]. The assessment must include an analysis of and measures to deal with: 1) the possibilities for the project/programme to improve the environment/climate; 2) the risks of the project/programme in relation to the environment/climate; and 3) the risks from climate change/environmental degradation in relation to the project/programme. Sida's intervention rule also specifies that Sida must, within each intervention, take into account the perspectives for development cooperation set out in Sida's instructions, of which the environmental and climate perspective is one of the perspectives.[12]

The climate markers for adaptation and emission reduction are so-called Rio markers. Since 1998, the OECD has established, through the Development Assistance Committee (DAC), the Rio Marker System, consisting of policy markers for monitoring and statistically reporting on development funding flows targeting the themes of Rio Conventions. There are four Rio markers, two of which are for climate: adaptation and emission reduction. The UN Framework Convention on Climate Change covers both greenhouse gas emission reduction and climate adaptation, as well as cross-cutting activities such as climate-related research and capacity building that may have implications for both adaptation or emission reduction. Projects and programmes meeting the criteria for both adaptation and emission reduction shall be marked with both markers.

All Sida's contributions can be marked with primary goals or targets. Each component (subproject) must be screened against the criteria for each policy marker and marked with code 0, 1, or 2 depending on the extent to which it meets the marker criteria.[13] The markers are used in the analysis of this assignment (see mainly Chapter 3.3).

Sida's Director-General decided in 2017 on the 2017-2020 Environmental and Climate targets and Action Plan (extended by one year, 2021, by DG Decision 2020-06-24). The Environmental Action Plan is based on Sida's environmental policy and clarifies what must be achieved, when and how it should be achieved, and who is responsible. One of the objectives is directly climate-related and Sida will increase

[11] Not as clear in Sida's intervention management system TRAC: "*All partners shall **normally have** (or make) an environmental assessment which can be a separate document or part of the project/programme document). please assess the intervention and the partner's capacity regarding how environmental/climate issues have been addressed and whether they have been adequately integrated into the design of the intervention"(This phrasing has been updated as of October 2020.)*

[12] Latest version, decided 2019-06-14

[13] The target relevant to a policy marker shall be clearly stated in the project/programme documentation and the contribution description. A component can have more than one marker that is scored as primary (2) and/or significant (1). Policy markers must be clearly justified in the documentation and reflected in the contribution description. In some cases, a component may not meet the criteria for any policy marker. In such cases, all policy markers should be marked with 0. Policy marker statistics are included in the comprehensive annual report on Swedish development cooperation, to the OECD DAC, to the Swedish government and to the UN (including the UN Environmental Conventions). Each component must be carefully screened and marked in relation to its policy objectives in order to provide reliable official statistics.

the proportion of funding for interventions with the environment as the primary purpose to 15 percent, the environment as a sub-purpose to 45 percent and for climate purposes ("climate finance") to 28 percent. Statistics for 2019 show that Sida has in principle achieved the 2020 target with the environment as a primary purpose but not as a sub-purpose. The climate target has also not been achieved, as climate funding stands at 18.5 percent in 2019.

In 2017, the OECD-DAC identified environmental mainstreaming as an area where a Peer Learning Review could be beneficial to the challenges faced jointly by DAC members in connection with the impact of their mainstreaming initiatives. The possibility to participate in the DAC Peer Learning Review was therefore seen as an opportunity to strengthen Sida's environmental integration work and therefore prioritized as one of the evaluations in Sida's Strategic Evaluation Plan 2018. Nine overarching lessons learned (with specific peer suggestions) were presented in the report to Sida:

1. Strong institutional bases are crucial,
2. A robust and versatile set of tools and mechanisms are needed to drive environmental integration throughout the activity cycle,
3. The specific results and benefits of environmental integration must be clear,
4. A focus on implementation is needed - environmental integration tends to concentrate on preparation and planning stages, but must extend over the entire activity cycle,
5. Humanitarian aid has a special and still often unrealised potential for integrating environmental issues,
6. Environmental competence throughout the organisation is made possible by good leadership,
7. Investing in the ability to integrate the environment is crucial,
8. Follow-up and learning is important,
9. Dialogue and engagement are driving forces for the integration process.

The Peer Learning Review showed that Sida has come a long way in its work on environmental integration (including climate) and made valuable recommendations on how systems and working methods can be improved. Among the challenges, however, was the fact that integration focuses on the preparation phase rather than the implementation of an intervention, and is not routinely included in follow-up and reporting, and accordingly it was difficult to capture the efficiency of integration and lessons as to why it is, or is not, taking place. It was therefore recommended to evaluate more specifically how the integration of the perspective takes place (or not) and the reasons behind this with a focus on the implementation phase. During the preparation of the Peer Learning Review, a briefing paper was drafted "Environment and climate change integration in Sida's development cooperation – An overview"[14], and already at this stage it was clear that Sida lacks compilations of good examples of environmental/climate integration and knowledge of how and why they were achieved. However, this report noted, by analysing interventions, that the level of ambition for environmental integration generally drops over the course of the programme and that continuous follow-up and funding are needed to maintain levels of ambition. Sida has therefore decided to carry out an internal review of Sida's

[14] https://www.sida.se/contentassets/44a87002cb6c4c5080be59c31c97d64b/stud2019_2_62233en.pdf

environmental/climate integration in the intervention management with a focus on the implementation and follow-up phases in spring 2021, as part of Sida's evaluation plan. The evaluation will also cover issues of governance, working methods and competence, such as partners' capacity to integrate the environment and climate. The lessons learned are expected to contribute to interventions in the forthcoming Action Plan and provide good examples that can be used by administrators and managers for inspiration and communication.

The majority of the measures proposed, as a result of the Peer Learning Review, are integrated into a one-year extension of the current Environmental Action Plan (2017-2020) for 2021 and in a new Environmental Action Plan for 2022-2025 and internally within Sida. This is expected to improve and enhance Sida’s environmental and climate work, also contributing to increasing alignment of development cooperation being with the Paris Agreement.

Sida's work with climate and environmental and climate integration is extensive in terms of, among other things, guidelines regulations and good knowledge of areas for improvement. Therefore, Sida has a good starting point for responding to the mandate given to the agency in the letter of appropriation.

4. In-depth analysis

To fulfil the assignment, Sida has chosen to carry out an in-depth analysis of development cooperation with multilateral institutions and how well Sida's climate integration system provides guidance on the climate impact of interventions. An analysis has also been made of the transformative potential of interventions with climate as the primary objective. The arguments conducted provide a picture of the lessons learned by Sida from the work on multilateral institutions and climate integration. The analyses of interventions and Sida's systems and tools for climate integration provide valuable knowledge about functionality and where the authority can, through further measures, improve results.

4.1 Bilateral development cooperation with multilateral institutions and environmental integration

Bilateral development cooperation with multilateral institutions, known as multi-bi-support, is defined as earmarked support through multilateral organisations (as opposed to core or budget support referred to as multilateral cooperation). Sida contributed financially with a total of SEK 11 billion in 2018 to – and through – multilateral organisations. This represents 44 percent of Sida's total payments in 2018. Multi-bi-support is more than financial contributions. Sida plays an important role in Sweden's overall dialogue and cooperation with multilateral institutions. Sweden is a board member of several multilateral organisations and Sida participates as an expert authority and contributes to board meetings as well as during bilateral annual

meetings with UN funds and programmes, such as UNDP, UNICEF, UN Women and UNFPA, as well as with the World Bank.[15]

The government's climate policy action plan[16] calls for an independent analysis of the compatibility of Swedish multilateral development cooperation with the Paris Agreement. Following informal contacts between the Ministry for Foreign Affairs and the Expert Group for Aid Studies (EBA), the EBA has started work on such an assessment. The work is carried out in parallel with Sida's work on producing this report. The EBA's analysis is based on a categorisation of the mandates of different multilateral organisations in relation to climate issues. The study is expected to be completed in autumn 2020.

The UN system and the EU are important actors and partners in the effort to support developing countries to live up to the climate agreement, but also other multilateral environmental conventions and agreements, the so-called *multilateral environmental agreements* (MEAs). Sida is part of the Swedish delegation to the climate negotiations and contributes to Sweden's climate finance reporting in accordance with the UNFCCC. Sida also finances capacity building for developing countries through interventions in the field of greenhouse gas monitoring, reporting and verification in accordance with the Paris Agreement.

The so-called Decade of Action launched by the UN as a way to accelerate the pace of achieving the Global Goals is an opportunity for Sida to increase the environmental and climate relevance of aid. As part of this, Sida should continue to support partners in developing approaches to enhance the effectiveness of climate work and reduce fragmentation.

Sida should continue, and further strengthen, its advocacy work towards multilateral organisations in the field of the environment and climate, both in the areas of UN funds and programmes and specialised agencies, as well as development banks. Lessons should be learned from past experience and from corresponding engagement and advocacy in other areas, such as gender equality and the empowerment of women and girls. The UN system needs to more clearly articulate its ambition for sustainability and climate considerations throughout the system. Sweden's commitment to UN reform should be a platform for influencing. The UN as a whole and within each of its respective organisations, which are independent of each other, should make better use of its learning beyond individual projects and use the knowledge to improve its overall carbon footprint. The climate issue is multi-sectoral and is particularly suitable for UN joint initiatives. Sweden should support the UN in a way that lowers the thresholds for cooperation outside its own organisation.

Based on the experience of the partner countries, Sida can contribute with perspectives on how positive environmental and climate outcomes could be more effectively achieved. At the same time, it is important to make visible and support the successes of the UN system in the environmental field that have difficulty in taking

[15] https://www.sida.se/Svenska/publikationer/163210/sidas-multi-bi-support/

[16] https://www.regeringen.se/rattsliga-dokument/proposition/2019/12/prop.-20192065/

their rightful place internally. At present, there is often a lack of systemic perspectives on the multilateral aid architecture to support countries' capacities and the implementation of their commitments under the Paris Agreement and other MEAs. Sida has, among other things, highlighted this in the dialogue with UNDP, which is the UN agency that provides the largest portfolio of environmental efforts with funding from vertical environmental funds such as GEF. A lesson from Sida's cooperation with the Swedish Environmental Protection Agency and support for environmental integration in the UN's activities has shown that it is possible to reduce negative environmental impacts. One example is the reduction in the negative environmental impact of peacekeeping missions. Even in vertical sector programs such as the Energy Sector Management Assistance Program (ESMAP)[17] through the World Bank, Sida is pushing to increase support for transformative reforms, reduced fossil subsidies, energy efficiency and influence the World Bank's loan portfolio in this direction. Through strategic dialogue with the World Bank's Global Water Security and Sanitation Partnership (GWSP),[18] Sida has contributed to the foundation's analytical work having an impact on the World Bank's overall lending in the water sector and increasing loans that have integrated resilience to climate change.

Assistance at country level, through multilateral actors, is characterised to a large extent by the project-oriented financing structures for development finance in the environment and climate fields. This creates fragmented aid in silos. Sweden is involved in the governance of UN development organisations for more effective funding (including to reduce fragmentation) and was instrumental in the so-called "UN Funding Compact", which is an initiative to strengthen the financing of UN aid activities. Sida assisted with expertise in this work. Where the Cooperation Partner and other donors are interested, Sida contributes to a better holistic approach, local ownership and long-term results through joint programs where several actors pool their resources and support a single program.

UNEP's role as a support and driver for environmental and climate integration throughout the UN system should be closely monitored. Lessons learned from UN Women's work on gender mainstreaming through, for example, UNSWAP should be used. Sida is actively involved in the work with Stockholm +50,[19] providing further potential for highlighting this and achieving an ambitious result. All in all, if Sida were to develop a higher profile on the environmental and climate issue with this approach, it could in turn influence development cooperation through multilateral organisations in a way that increases alignment with the Paris Agreement. However, there are some challenges in making explicit references to the Paris

[17] Sida is one of about 15 donors to ESMAP

[18] GWSP, Connecting the Drops, Annual Report FY2019. https://www.worldbank.org/en/programs/global-water-security-sanitation-partnership.

[19] From the working paper on Stockholm+50, Ministry of the Environment, June 2020:
"The 50th anniversary of the first UN Conference on the Human Environment is a unique opportunity for the world's citizens, companies and countries to show, through specific actions and with a collective, forward-looking vision, how to deliver on commitments for 2030 and beyond. Stockholm 2022 should serve as a springboard for generational equity accelerating transformation which leaves no one behind; a transformation that leads to more equality not less, to more jobs not fewer, and to a healthy planet for all. After five decades, it is time to passing on the torch from the elders to the youth, our leaders of the future we want."

Agreement in multilateral agreements relating to development cooperation, as such references are not accepted by all countries.

A further opportunity for Sida to contribute to increased environmental integration is in the OECD DAC's environmental work through chairing of the Network on Environment and Development Co-operation (ENVIRONET). As mentioned earlier, Sida has participated in the DAC Peer Learning Review on Environmental Mainstreaming. Through the learning process, OECD DAC has recommended that Sweden, and specifically Sida, call for improved environmental integration for multilateral organisations, as has already been done in relation to gender mainstreaming. For example, by evaluating the extent to which individual UN agencies integrate and apply "safeguards" and requiring that these be improved, if they are not already improving sufficiently or consistently, and requiring strategic environmental assessments (SEAs) for major policies and plans such as infrastructure and land development, and also pursuing joint cooperation with multilateral organisations in the SEA field. This can help to improve climate action within the organisations and increase alignment with the Paris Agreement.

In connection with a number of preparations of aid efforts, Sida has hired a consultant to analyse the receiving organisation's environmental and climate policy framework and systems, known as *Central Environmental Assessments (CEA),* in order to assess the work of multilateral organisations on environmental and climate integration. These assessments have contributed to an improved understanding of the audited organisation's systems and capacity to integrate and manage environmental and climate issues. It has also provided knowledge of the extent to which the organisation meets Sida's three dimensions of environmental integration, recommendations regarding improvements, potential dialogue issues and a signal to the organisation that environmental integration is important for Sweden. So far CEAs have been developed for the ILO, ADB, FAO, UNDP, and partly similar analyses have been prepared for the IFC and IDB.[20] By way of example, the FAO CEA drew attention to and triggered a discussion regarding the issue of chemical use in projects. Prior knowledge of the organisations' organisation-wide systems is crucial to effective advocacy and to assess risk and relevance in the choice of cooperating partners. If CEAs were to provide a basis for the Ministry for Foreign Affairs's organisational assessments and as a basis for the organisational strategies, Sida believes that the result could be increased impact and even better coordination in the implementation of the strategy.

Effective advocacy in relation to multilateral organisations, especially development banks and the UN, in their development cooperation has great potential. Both time and a clear ambition as well as good interaction in the Swedish team, between the relevant Ministry and Sida, are required to realise its full potential. UN funds and programmes will shortly begin work on developing new strategic plans and perfor-

[20] Reporting back according to the 2019 regulatory letter on development cooperation and humanitarian aid through multilateral organisations 2017 - 2018

mance frameworks. Sida's largest cooperating partner, UNDP, has explicit references to the Paris Agreement in the current performance framework 2018-2021, as well as concrete goals and indicators for the environment and climate, as requested by among others Sweden and Sida when the steering documents were produced. Sweden should monitor this and be active in the development of the next plans.

4.2 Analysis of interventions with possible climate relevance marked with zero according to Sida's statistical classification (climate and environmental policy markers)

As mentioned earlier, Sida uses a number of predefined policy markers to show the extent to which projects/programmes aim to reach specific policy goals. For the environment and climate, Sida uses the policy markers for the environment and adaptation and emission reduction.

Sida's premise for this analysis is that interventions marked as 2 (primary goal) and 1 (target) for the environmental, climate adaptation and emission reduction markers, through the applicable requirements, give an indication that the intervention is in line with the Paris Agreement. This is because an environmental assessment, if implemented for the intervention as required, takes into account the climate impact both in terms of emission reduction and adaptation. Furthermore, this assumes that Sida's environmental policy is clear in that "Sida's environmental work in long-term development cooperation and humanitarian aid is done by ensuring that environmental aspects, including climate risks, are consistently taken into account and integrated into the planning, implementation and follow-up of strategies and interventions". One lesson from the long-standing work on environmental assessments is that Sida's three principles for environmental integration, unlike many other donors, assume that the efforts will go beyond "do no harm". For this to happen, a greater emphasis is needed on environmental integration in the implementation phase through planning, budgeting and follow-up, and Sida will deepen its understanding of this through the planned internal review in 2021 (see chapter 3. Sida's work on environmental and climate integration).

To respond to the letter of appropriation assignment on the additional measures required for Swedish bilateral development cooperation to be in line with the Paris Agreement, Sida has decided to analyse a selection of interventions marked as 0 in terms of the markers for the environment and climate with a wide geographical spread and in the type of cooperating partner. There are interventions in several climate-relevant sectors, i.e. sectors that are likely to have an impact on the climate and where a transition is needed[21]. The distribution of sectors and interventions, out of the total 49 selected interventions[22] analysed, are Agriculture (4), Industry (15), Businesses and Other Services[23] (9), Water and Sanitation (3), Energy (1) and

[21] https://ec.europa.eu/clima/change/causes_en

[22] The selection has been made in collaboration with Sida's statisticians and is statistically reliable.

[23] Businesses and other services

Banking and Financial Services[24] (17). The interventions are checked against the requirements for 2 and 1 but have been assessed as not meeting these.

The sectors selected include interventions with great relevance in relation to the Paris Agreement and the transition to be delivered according to the agreement. The impact that exists in the sectors varies and can be either direct or indirect. Interventions in agriculture, for example, can, depending on how sustainability aspects are taken into account, have a direct impact on cultivation methods and land use. For interventions such as businesses or financial services, a large part of the climate impact comes from the activities generated by the intervention. In other words, indirect impact.

The result of the analysis of interventions marked with zeros shows that a majority of the audited interventions in the first assessment are correctly marked (94%). That is, they have been assessed against the three environmental and climate markers and the interventions do not meet the applicable requirements for targets and goals to be marked as 1 (significant) or 2 (principal).

In accordance with Sida's system, an environmental assessment of all interventions must also be carried out as a part of the environmental integration. This will ensure a deeper and more qualitative assessment. The three principles set out in Chapter 3 form the starting point of this assessment. The analysis shows that less than one fifth of the interventions examined had carried out an environmental assessment in which Sida's three principles were identified, assessed and addressed. Therefore, the environment and climate were not systematically integrated to any great extent in the 49 interventions reviewed.

One conclusion of the analysis is that all sectors and a clear majority of interventions have great potential in contributing to more transformative and environmentally sustainable development – which is in line with the Paris Agenda. However, since no environmental assessments according to the 'three dimensions' were carried out, it is not possible to say whether or not an intervention is in line with the Paris Agreement.

Since the analysed interventions have been tagged with 0 for the climate markers, the climate issue is rather invisible in a majority of interventions. In about half, it is not clear that they do not conflict with the transition to reduced emissions or increased resilience to climate change. The reasons for this is a lack of clarity regarding the type of activities that the intervention will support when implemented. As a result, there is a potential risk that the intervention will eventually contribute to activities that may have a negative impact on the environment and climate. Increased access to both financial support and financial services can create scope for investment that leads to negative impacts on the environment and climate if this is not taken into account initially.

[24] Banking and financial services

The analysis makes it clear that there is potential in the context of interventions focusing on private sector development, job creation, market development and economic development. An environmental assessment could give an increased focus on supporting green growth through green investment and green jobs for several of the interventions under investigation.

By focusing on growth and job creation in sectors that have the potential to change practices and find innovative solutions, potential negative effects on the climate can be reduced. Such an expanded climate focus would also shed light on the interventions and the contribution of Swedish development cooperation to achieving the Paris Agreement. The analysis shows that the vast majority of the interventions do not have this ambition, but are "business as usual" with increased productivity and economic growth at the core. This can be seen as a missed opportunity for Swedish development cooperation to increase alignment with the Paris Agreement.

Overall, the analysis shows that there is great potential in all sectors audited to raise ambition in relation to climate integration and the use of environmental assessments. In this way, development cooperation could also contribute to a transformative development towards more sustainable economic growth with green jobs and innovations that are environmentally sustainable and meet the Paris agenda of reducing emissions and strengthening climate resilience. A further lesson is that the systems that Sida has in place today, where the environmental assessment is a central part, are sufficient to achieve integration of the environment and climate into interventions.

4.3 Transformative development and change/paradigm shift

Paragraph 2.1 and item c) of the Paris Agreement states that *Financial flows should be made compatible with a path towards low greenhouse gas emissions and climate resilient development*, which is an important starting point for low-emission development cooperation.

To get a picture of Sida's work on the transition and paths toward low emissions, Sida has conducted an analysis against the OECD DAC's four characteristics of development co-operation that aligns with the Paris Agreement. The starting point for the analysis has been sixteen Sida-funded interventions[25], all of which are classified as 2 (principal objective) for the Rio climate adaptation and emission reduction markers, i.e. that this is the principal objective of the project/programme.[26] The aim was to assess, based on OECD criteria, if possible, the transformative potential of each contribution .

The selection shows that the sixteen interventions – also based on OECD DAC's criteria – can be said to be aligned with the Paris Agreement. No activities have

[25] The selection has been made in collaboration with Sida's statisticians and is statistically reliable.

[26] The selection has been made in dialogue with all Sida's operational departments.

been identified which act in opposition to the transition required to reduce emissions and lead toward climate resilient pathways. On the contrary, the assessment is that the interventions examined contribute to the necessary transition and are more ambitious than to 'do no harm'. In other words, the interventions are transformative according to the conceptual framework developed by the OECD.

In conclusion, the verification of the sixteen interventions indicates that Sida-funded interventions marked with 2 for the climate adaptation and emission reduction markers are in line with the Paris Agreement on climate. All interventions meet one or more criteria identified by the OECD DAC for what should characterise an intervention in line with the Paris Agreement. None of the verified operations are considered to be contrary to compliance with the Paris Agreement.

One conclusion of the analysis is that interventions marked with a 2 on climate, and lessons learned from these interventions, may lead the way for other sectors. Tools and instruments in these interventions can be used effectively, contribute with research and innovation, and raise awareness that climate action is at the heart of sustainable development.

This conclusion, and the need for transformation, are reinforced by the recommendations made by the recently published EBA evaluation of the Swedish climate initiative[27]. One conclusion is that Sweden can go even further and ensure fulfilment of the principles of effective development cooperation and the goals of the Paris Agreement. This can be done by accelerating the implementation of appropriate integration methods for climate in all activities. The evaluation also mentions that Sweden should develop a political ambition at top-level that recognizes the critical climate situation and how it is linked to the depletion of biodiversity and the implications for the future direction of development cooperation. The evaluation recommends that the Ministry for Foreign Affairs and Sida go beyond the concept of "mainstreaming" or "integration" with regard to climate adaptation, emission reductions and biodiversity, to a "new normal" of transformative development.

There is a growing recognition among development actors, including Sida, of the need for transformative methods and working methods to achieve the systemic changes necessary to accelerate the implementation of both the Paris Agreement and the 2030 Agenda[28]. Sida has therefore established a so-called climate lab in spring 2020, which is part of a business-wide support structure for methodological and operational development to increase innovation and transformative potential in the implementation of the 2030 Agenda. It is funded by *the Strategy for capacity development, partnerships and methods supporting the 2030 Agenda for Sustainable Development for the period 2018-2022*.

The climate lab's mission is to develop innovative methods and working methods with transformative potential or potential to break ingrained patterns together with

[27] https://eba.se/rapporter/evaluation-of-the-swedish-climate-change-initiative-2009-2012-2/11894/

[28] EBA evaluation, p. 93 pp, and OECD DAC PLR, p. 8

cooperating partners and/or target groups. Sida intends to develop new forms of co-operation, financing and working that can yield a greater result in climate work and speed up a climate transition. The climate lab is currently investigating the potential of system innovation at country level in the implementation of the system innovation in cooperation with a foreign authority and an external actor. The hypothesis is that new ways of working and collaborating and identified leverage points should be able to contribute to system changes rather than solely good project results from more isolated climate projects. It is hoped that the work of the climate lab will contribute to continued efforts at Sida to strengthen coherence with the Paris Agreement at various levels.

In addition, Sida climate lab explores opportunities to learn lessons from the interventions marked for 2 (principal objective) on climate. Sida also has a dialogue with partners on how interventions marked 0 can strengthen their climate perspective, especially with a focus on adaptation and resilience. Together with cooperation partners, Sida has started work to develop proposals for new solutions to challenges within existing programmes based on the innovation method design thinking/service design, and will then test and potentially scale up already transformative interventions or methods.

Sida has the potential to support transformative development through resource mobilisation to the environment and climate via our guarantees. Partnership with industry is another important instrument. The Swedish Leadership for Sustainable Development (SLSD) and Swedish Investors for Sustainable Development (SISD) networks coordinated by Sida are examples of[29] partnerships that drive resource mobilisation, climate transition and innovation. The work of SISD has also inspired the creation of the global network Global Investors for Sustainable Development (GISD) led by the UN Secretary-General.

5. Conclusions and proposals

There is no accepted definition for activities that are aligned with the Paris Agreement. Sida's starting point is that climate impact and actions should be taken into account in all development cooperation strategies, programmes and projects – based on a sound environmental assessment. By doing so and integrating the environment and climate into normative dialogue and preparation of interventions, Sida can ensure that bilateral development cooperation aligns with the Paris Agreement.

A large part of Swedish bilateral development cooperation goes through multilateral organisations. This support is more than financial contributions and Sida plays an important role in Sweden's overall dialogue and cooperation with multilateral institutions. One way to further raise the climate issue is through the normative dialogue

[29] SISD is a network initiated by Sida that includes major companies and financiers working on how to contribute to the Global Sustainable Development Goals (SDG). A special group is working on SDG-13, Climate Action, including with a *Task Force on Climate-related Financial Disclosures (TCFD).* SISD, in turn, was the model for Global Investors for Sustainable Development initiated by the UN Secretary-General in April 2019.

with these organisations. Among other things, experiences should be obtained and lessons learned from the work on gender mainstreaming. A clearer overall perspective of how aid functions in relation to the environment and climate at country level should be monitored, including in the follow-up of UN reform in the development pillar. The so-called Decade of Action launched by the UN as a way to accelerate the pace of achieving the Global Goals is an opportunity for Sida to increase the environmental and climate relevance of aid. As a part of this, Sida should continue to support partners in developing approaches to enhance the effectiveness of climate work and reduce the fragmentation of work identified by Sida at country level. Building on the experience of mapping our most important systems and capabilities and thus strengthening contribution management is an important part of the work.

In order to further strengthen global work and respond to the seriousness of the climate crisis and to be able to deliver on the Paris agenda, the mobilisation of climate finance must be increased. At the same time, we must ensure that all activities, whether or not they are financed through climate finance, take into account and integrate the objectives of the Paris Agreement. This also applies to development cooperation.

One conclusion of the analysis is that there is support for contributions classified against the environmental marker and climate markers as being in line with the Paris Agreement. Thus Sida's assessment is that the agency has functional tools and systems for assessing the environmental and climate impact of a contribution. Compliance with the requirement to carry out environmental assessments for all contributions is thus the decisive factor in qualitatively assessing the potential risk that a contribution in the long term and at a later stage contributes to activities that may have a negative impact on the environment and climate. There is great potential for development cooperation to contribute even more to the transformative development necessary to fulfil the Paris Agreement with reduced emissions and strengthened climate resilience.

Achieving a rapid 50 percent decrease of global emissions and, in the longer term, negative emissions requires a paradigm shift and reforms that lead to transformative development. It is important to analyse how contributions can also be part of delivering transformative development, including by influencing incentives and policies to support a rapid transition towards a climate-smart society.

An important conclusion of the analysis of climate marked contributions against the four criteria/characteristics identified by the OECD DAC for actions that align with the Paris Agreement is that lessons learned from these contributions can lead the way for other sectors. In order to better assess how contributions are contributing to alignment with the Paris Agreement and transformative potential, the criteria/characteristics could be used as a "checklist". This could be part of the instruction in the statistical handbook for the climate markers for Sida to use when preparing all contributions. This would potentially capture important inputs to further strengthen the ambition of contributions to contribute to the goals of the Paris Agreement.

In addition to the tools available to Sida, of course, capacity, priorities and strategy management are important to progressing even further. In strategies that have a clear climate target, this means both a direct effect of more climate-related contributions, but also an indirect effect by clarifying the need for climate integration in other sectors. There is also a potential to contribute even more to the transformative change facing the world, a potential that Sida should explore further.

In order for Swedish development cooperation to increase alignment with the Paris Agreement, Sida believes that the agency in part needs guidance from the Ministry for Foreign Affairs and at the same time that there are several interventions which the agency itself has the power to implement. The following could be important steps in this work:

Steps where Sida seeks guidance from the Ministry for Foreign Affairs:

- Since there is no clear definition of what can be considered aligned with the Paris Agreement, an ambition level should be set. Sida has developed a basis for how the agency can work further on **raising the level of ambition** through what has been highlighted in this writing. At the same time, there is scope for the government to set an ambition level for what might be considered aligned with the Paris Agreement.

- **Clarifying climate in strategy management** – Strategies with clear objectives on climate mean an increased focus on climate and a clearer focus on climate integration in all sectors. This is because contributions need to highlight climate in the strategy implementation.

- Clarifying whether **central environmental assessments** of multilateral organisations (CEA) carried out by Sida could be used in organisational assessments and as a basis for organisational strategies.

Steps Sida can take within the framework of ongoing operations and governance:

- Bilateral development cooperation with multilateral institutions – There is an opportunity for Sida to develop an even higher profile in terms of environmental and climate dialogue with multilateral organisations in general, both with regard to UN organisations and development banks. In order to do this as effectively as possible, there is a need to **improve knowledge about the work of multilateral organisations on environmental and climate integration**. By pushing environmental and climate issues in existing forums and by that raising the normative dialogue more clearly in the UN, Sida could start a process regarding identifying what is required to increase alignment with the Paris Agreement.

- Clarify the importance of **mandatory environmental assessments** – Based on the conclusions of the analyses carried out, it is clear that perhaps the main tool for integrating climate and taking into account the ambition of the Paris Agreement is for environmental assessments to be carried out. There is potential to continue work on contributions that have not been marked at all for the environment and climate to ensure that these projects/programmes do not adversely affect the fulfilment of the Paris Agreement. Sida estimates that the tools for making this assessment are already in place. In this area Sida needs to improve its compliance.

- Sida will prepare a **new environmental action plan** for the environment and climate work for the years 2022-2025. In its development, there is great potential in highlighting the importance of increasing the alignment of development cooperation with the Paris Agreement through tangible targets for the period.

- Develop **systems to assess the transformative potential** – One conclusion of the analysis is that interventions marked for 2 (principal objective) on climate, and lessons learned from these interventions, may lead the way for other sectors. Tools and instruments in these contributions can be used effectively, contribute with research and innovation, and improve understanding that climate action is at the heart of sustainable development. In order to take advantage of this potential, Sida's assessment tools need to be developed and clarified to include, for example, OECD DAC’s criteria/characteristics in order to demonstrate the potential of interventions already during the preparation stage of a contribution.

Appendix 1

Fossil energy in Sida's development cooperation and humanitarian aid

The climate policy bill (*Prop. 2019/20:65)* presented in autumn 2019 and adopted by the Riksdag in June 2020 includes a provision that Sida considers important in relation to the assignment that Swedish bilateral development cooperation should be more aligned with the Paris climate agreement. The provision reads "In addition to the targeted climate efforts in bilateral development cooperation, it is of great importance that other elements of development cooperation are also aligned with the objectives of the Paris Agreement and thus do not include support for fossil fuels."

Globally, fossil fuels are estimated to cause about three-quarters of total greenhouse gas emissions. The rest, about a quarter of emissions, are caused by deforestation, agriculture and animal husbandry.[30]

Globally, primary energy supplies are largely dependent on fossil fuels. Only about 15% of energy comes from renewable fuels (2018). An important general obstacle to faster transition to renewable energy sources is the massive subsidies for fossil fuels. In 2018, global subsidies are estimated at over USD 400 billion[31], while global subsidies for renewable energy are around USD 100 billion[32]. The same sums could finance a global transition to renewable energy.[33]

Another neglected area is energy efficiency. The saved kilowatt hour (kWh) is usually cheapest and most environmentally friendly to "generate". According to the International Energy Agency (IEA), the rate of improvement in energy efficiency has decreased since 2015[34].

Within Sida's development cooperation, no support is given to the extraction of fossil energy or direct support for the generation of electricity based on fossil fuels. On the other hand, Sida's cooperation partners buy and use diesel-powered generators in areas where no other alternatives are available or where the electricity supply is too unreliable, for example in humanitarian aid.

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[30] https://www.wwf.se/klimat/mansklig-paverkan/

[31] https://www.iea.org/commentaries/fossil-fuel-consumption-subsidies-bounced-back-strongly-in-2018

[32] Fossil Fuel to Clean Energy Subsidy Swaps: How to pay for an energy revolution, IISD, June 2019, https://www.iisd.org/library/fossil-fuel-clean-energy-subsidy-swap

[33] Just 10-30% of the fossil fuel subsidies would pay for a global transition to clean energy, Ibid

[34] https://www.iea.org/reports/energy-efficiency-2019

Today (2018) more than 2.6 billion people lack access to clean energy for cooking.[35] This is estimated to lead to some 2.5 million premature deaths a year linked to household air pollution, mainly related to cooking[36] and women and children being hardest hit.

Some aid may include access to Liquified Petroleum Gas (LPG) for cooking when other alternatives are lacking or have greater negative environmental and climate effects, such as deforestation.

The countries where Sweden engages in bilateral development cooperation generally have low greenhouse gas emissions. Development cooperation is therefore primarily focused on strengthening adaptation to climate change and supporting structures that are not based on fossil energy sources and that strengthen resilience to climate change. This can for example be through the deployment of renewable energy, the conservation and reforestation of forests, or climate-smart agriculture. At the same time, electricity supply in most of Sweden's cooperating countries is mostly based on fossil fuels, which means that interventions carried out in partner countries depend on fossil energy.

Sida has accumulated a lot of lessons from working with countries, development banks and civil society in different parts of the world for a long time. In this annex, we have chosen to focus on fossil elements in development cooperation in Eastern Europe and the Western Balkans, sub-Saharan Africa and Sida's humanitarian aid.

Eastern Europe and the Western Balkans are a region generally characterised by a legacy of the former communist period of widespread environmental degradation and great inefficiency in the use of natural resources, including energy. Municipal environmental investment has long been key to Sweden’s role in reform cooperation in Europe. Political messages and priorities have been combined with concrete support, together with demands for reform, participatory processes, accountability and transparency, which has had an impact on the investments. The work is long-term and requires an active commitment over time to get endorsement of Swedish priorities such as a green transition towards a fossil-free, sustainable public service.

With regard to the energy sector as a whole at national and regional level, with, for example, large fossil power plants for the production of energy, Sida has assessed that the potential for influence and impact through bilateral development cooperation is relatively limited. The reason is that this sector is largely political and with strong regional geopolitical elements, and simultaneously in great need for reform.

In order for development cooperation in the region to increase alignment with the Paris Agreement, the cooperation countries must give higher priority to the environmental and climate issue. The EU's "Green Deal" strategy is a strategic opportunity for Sida, together with other EU donors, to push for such a development. A green

[35] https://www.iea.org/reports/sdg7-data-and-projections/access-to-clean-cooking

[36] Ibid

transition that aligns with the objectives of the green deal will require a comprehensive reform of the energy sector. But also support for the implementation and further development of countries' NDCs linked to the Paris Agreement. Together with the SDGs, the green deal can provide important support in the policy dialogue with countries and for accelerating a transition.

In development cooperation in **sub-Saharan Africa**, Sida supports projects/programmes that deliver to several commitments under the Paris Agreement. This includes reducing the use of fossil-based energy, contributing to reducing greenhouse gas emissions, building fossil-free communities and adapting to climate change.

As with the work done in Europe, Sida's experience in supporting reforms to reduce fossil-based energy use is that a well-established, nuanced and broad understanding of the parties' energy policy balances is of paramount importance. Like decisions on major energy investments, energy reforms involve a number of stakeholder groups and target conflicts within countries. Even in cases where Sweden has a high level of confidence and well-established channels to decision makers, the possibilities for real impact on reforms and investment decisions are often limited.

There is significant potential in streamlining electricity use and Sida's work related to buildings and consumer markets demonstrates the value of working for reform processes systematically and in coordination. There are prerequisites for an increase in ambition with a coordinated, focused and long-term work to continue to contribute to the efficiency of electricity use in Africa. The majority of Sida's work with renewable energy focuses on non-grid-connected electricity where fossil-free solutions create concrete development effects in the near future. At the same time it is laying the foundation for scalable energy systems that can drive development and growth in the countries.

Sida's work with energy-efficient cooking is under construction and is expected to contribute to a number of SDG goals as well as specifically reduced deforestation and reduced fossil dependence. Changing cooking traditions challenges deep-seated behaviour patterns among end users, usually women. Traditional, fossil-based alternatives to energy-efficient cooking are often backed up by strong special interests that, among other things, contribute to illegal deforestation. In the work on energy-efficient cooking, there is a contradiction around the view of Liquified Petroleum Gas (LPG), between a strict view of the use of fossil fuels and choosing the fuel that contributes the greatest climate benefit.

In **humanitarian aid**, the lack of sustainable, regular and adequate energy supply in an increasing number of humanitarian crises appears to be a recurring and growing problem. The lack of energy and fuel, mainly for cooking, can lead to conflicts with the host population, the devastation of forests/ecosystems and increased risks for women and children who are often the ones collecting the fuel.

The use of fossil energy is significant. By way of example, UNHCR including its partners spend more than $35 million a year on diesel to produce electricity with diesel-powered generators. There is a great need for clearer recommendations on

new technological solutions that minimise the energy requirement for cooking and heating, which normally accounts for up to 90% of energy needs. At present, there is a lack, among other things, of well-defined minimum levels of energy supply within the framework of humanitarian Sphere[37]standards. However, Sida will encourage stronger wording in Humanitarian Sphere standards to clarify minimum requirements (energy solutions, etc.) to be implemented by the organisations and donors.

The use of new solutions that can reduce energy and fuel needs is currently relatively low. There is a need to demonstrate, on a larger scale, that various environmentally sustainable technological solutions can be used in practice to significantly reduce energy needs in humanitarian crises and thus improve the situation of the most vulnerable. Sida is currently working on several projects including tightening humanitarian standards for energy and fuel, increased electrification and environmentally sustainable and energy-efficient technical solutions to significantly reduce energy and fuel needs in selected crises together with mainly UNHCR and WFP.

[37] Sphere is an international NGO based in Geneva: *For over twenty years, Sphere has worked to improve quality and accountability in humanitarian response. We are now entering a new chapter, where users of Sphere can become members of Sphere and play an active role in the future of the standards.* https://www.spherestandards.org