European Bank
for Reconstruction and Development

Methodology to determine the Paris Agreement alignment of EBRD investments

MARCH 2024

European Bank
for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is committed to aligning all of its activities with the goals of the Paris Agreement on climate change.

The EBRD's approach to alignment with the Paris Agreement is guided by an implementation approach agreed by the multilateral development banks (MDBs). The approach has 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; (5) reporting; and (6) alignment of internal activities.

This document sets out how the EBRD operationalises building blocks 1 and 2 of the MDB implementation approach. It presents a methodology for determining whether or not an investment or technical cooperation activity project the Bank might finance is "aligned" or "not aligned" with the mitigation and adaptation goals of the Paris Agreement.

The scope of the methodology covers the full suite of financial instruments and financing types the Bank may use.

Contents

Supplementary material

1

Purpose and scope of the EBRD's Paris Agreement alignment methodology

Context

1.1. The Paris Agreement is an international treaty with the aim of "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".[1]

1.2. All of the economies in which the EBRD invests have endorsed the Paris Agreement.[2] It also has the support of the Bank's shareholders.

1.3. At the EBRD's 2021 Annual Meeting, its Board of Governors committed to aligning all of the Bank's activities with the goals of the Paris Agreement by the end of 2022. Paris alignment is an integral part of the Bank's work to support the climate action of the economies in which it operates. It builds on the Bank's commitment to promoting "environmentally sound and sustainable development" in the full range of its investment and technical cooperation activities.[3]

1.4. The Paris alignment of the EBRD's financial flows is anchored in Article 2.1(c) of the Paris Agreement, which commits signatories to making "finance flows consistent with a pathway towards low greenhouse gas emissions (GHG) and climate-resilient development".[4] Its alignment, therefore, refers to both the mitigation and adaptation goals of the Paris Agreement. In this methodology, low GHG emissions development, or a "low-carbon economy", means to transition towards economic activities that produce low GHG emissions, in line with the goal of the Paris Agreement to limit the increase in global average temperature to 1.5 °C above pre-industrial levels. It is a precursor to the ultimate goal of achieving a "net zero" carbon economy around mid-century.[5]

Purpose and scope

1.5. This document sets out the high-level framework (or methodology) the EBRD will use to determine whether or not an investment or technical cooperation activity project the Bank might finance is "aligned" or "not aligned" with the mitigation and adaptation goals of the Paris Agreement. In putting into practice its Paris alignment commitment, the EBRD is guided by the 1.5 °C goal.

1.6. The scope of the methodology covers the investments and technical cooperation activities undertaken by the EBRD during the course of its operations. The Bank's investment of its reserves or of funds not required for its operations is addressed separately.

1.7. The methodology has three parts: (1) directly financed investments; (2) indirectly financed investments with partner financial intermediaries (PFIs); and (3) financial instruments used by the EBRD not otherwise covered by (1) and (2) (see Figure 1.1). For each element, the methodology sets out how the EBRD will determine whether activities the Bank might finance are "aligned" or "not aligned" with the mitigation and adaptation goals of the Paris Agreement. The scope of the methodology ensures that there is a clear approach to alignment determination for all project types, covering the full suite of financial instruments and financing types the Bank may use.

[1] See United Nations (2015a). Adopted pursuant to Decision 1/CP.21 of the 21st session of the Conference of Parties to the United Nations Convention on Climate Change.

[2] Despite formally endorsing the goals of the Paris Agreement, Kosovo is not a signatory to the Paris Agreement, as it is not a party to the United Nations Framework Convention on Climate Change. All other economies in which the EBRD invests have signed and ratified the agreement.

[3] See EBRD (2019a, 2020; 2021a).

[4] See United Nations (2015a).

[5] The Paris Agreement aims to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty. All of the EBRD's activities seek to make economies more competitive, well governed, green, inclusive, resilient and integrated. These six transition qualities are aligned with the 2030 Agenda for Sustainable Development (United Nations, 2015b), which was adopted by all United Nations member countries in 2015, and its accompanying Sustainable Development Goals (SDGs).

1.8. The methodology further provides supplementary information relevant to its application. This includes an agreed set of activities the MDBs deem aligned and not aligned with the Paris Agreement mitigation goals (Annex 2); how the Bank undertakes an economic viability test to inform the Paris alignment of certain directly financed investments (Annex 3); guidance on sector-specific issues relevant to the determination of Paris alignment (Annex 4); and a list of sectors the MDBs deem to be "high-emitting" (Annex 5).

1.9. As of 1 January 2023, all EBRD projects, prior to signing, require a determination of Paris alignment using this methodology.[6] The methodology applies to new EBRD investments only.[7]

1.10. The EBRD has adopted internal governance measures to verify compliance with the methodology. The Bank's Climate Strategy and Delivery department is responsible for implementing the methodology. It works closely with the Banking departments, which take the lead on investment preparation. The Environment and Sustainability Department is accountable for independently verifying that the alignment determination of EBRD investments, including any requirements following investment signing, is in line with the methodology.

1.11. The methodology will be reviewed at least annually and updated as required. These updates will reflect, among other things, lessons learned by using the methodology for different types of project, the experience of other institutions (including other MDBs) with regard to Paris alignment, and the development of external tools and reference works. Any substantive updates to the methodology will be approved by the Bank's Operations Committee and will be subject to public consultation.

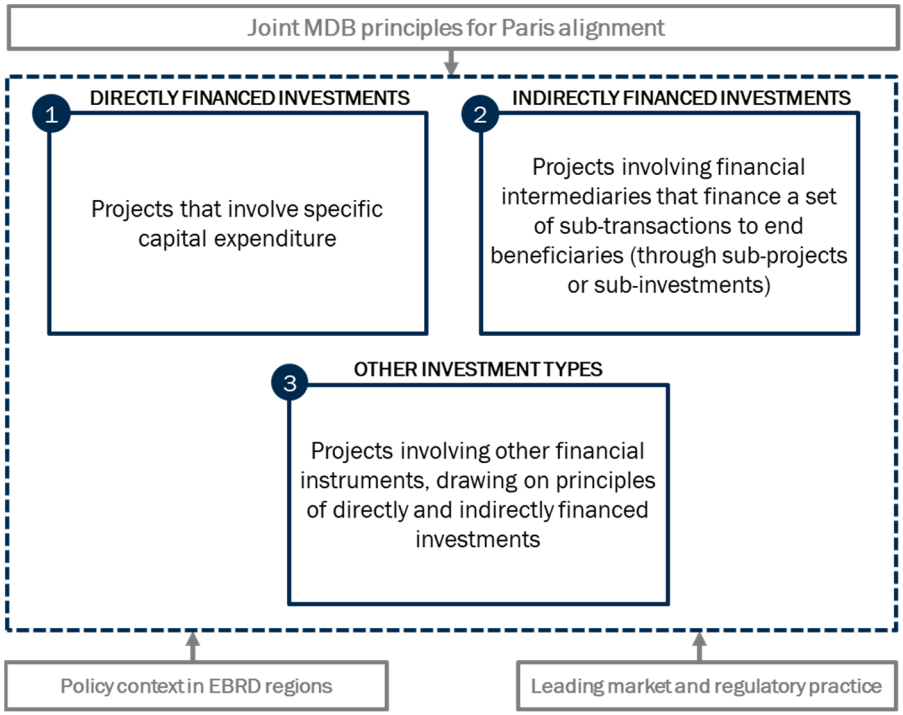
1.12. The methodology intersects with a number of Bank processes that are related to, but distinct from, Paris alignment. These include the EBRD's assessment and attribution of green or climate financing, Environmental and Social Policy requirements, transition impact and climate-related financial risk appraisal (see Annex 1 for further detail).

1.13. While not covered in detail here, the methodology is complemented by the EBRD's work with leading initiatives and organisations on policy, regulation and best practice for climate action. This includes the Bank's active engagement with the European Union (EU) and leading initiatives such as the Nationally Determined Contribution Partnership (NDCP) and the Network for Greening the Financial System (NGFS). Application of the methodology will also inform – and be informed by – the Bank's policy engagement with governments, financial regulators and central banks in the economies where it operates.

[6] Projects are defined in accordance with the EBRD's Environmental and Social Policy (EBRD, 2019a). Specifically, a project is "the set of works, goods, services and/or business activities defined in the financing agreements and for which EBRD financing is sought by a client, and approved by EBRD". Depending on context, the project could also include any associated facilities, defined as "facilities or activities that are not financed by EBRD as part of the project but which in the view of EBRD are significant in determining the success of the project or in producing agreed project outcomes. These are new facilities or activities: (i) without which the project would not be viable, and (ii) would not be constructed, expanded, carried out or planned to be constructed or carried out if the project did not exist."

[7] From 1 January 2023, all EBRD investments require an alignment determination in line with the then applicable methodology to determine Paris alignment. Each time the methodology is updated, the updated methodology applies to those projects receiving Concept Review Memorandum (CRM) approval or a New Transaction Notification Email (NTE) after the date on which the update becomes effective. Some projects that received CRM approval or an NTE before 1 January 2023, but were signed after this date, may not meet all formal requirements of the applicable methodology, but the Bank will nonetheless verify that they carry no material risks of non-alignment with the goals of the Paris Agreement by reference to the substantive principles of this methodology.

Figure 1.1. The EBRD's Paris Agreement alignment methodological framework



Methodological overview

1.14. The EBRD's approach to determining the alignment of its investment projects with the Paris Agreement is grounded in the joint MDB alignment framework. This high-level framework guides MDBs in setting out their Paris alignment methodologies, giving them the flexibility to reflect their mandates and business models. It also recognises that, for MDBs, Paris alignment covers a full range of activities at investment, policy and corporate level.[8]

Directly financed EBRD investments

1.15. Based on the MDB framework for directly financed investments, to be Paris aligned, a project must demonstrate alignment with both the mitigation and adaptation goals of the Paris Agreement.

1.16. The Bank's approach to Paris alignment for climate change mitigation entails demonstrating that each project meets the following two conditions:

a. consistency with long-term low-carbon development, to give assurance that it is part of a transition to a future consistent with the Paris Agreement mitigation goals; and

b. a low likelihood of carbon lock-in, to give assurance that the project does not enable an emissions-intensive asset to continue operating when economically preferable, lower-carbon options could replace it.

[8] The joint MDB approach to alignment with the objectives of the Paris Agreement was presented at the United Nations Climate Change Conference (COP24) in 2018 (EBRD, 2018b) and is consistent with the joint MDB Methodological Principles for Paris alignment (MDBs, 2023a). The approach has six "building blocks" for Paris alignment: (BB1) alignment with mitigation goals; (BB2) adaptation and climate-resilient operations; (BB3) accelerated contribution to the transition through climate finance (in the EBRD's case, GET finance); (BB4), engagement and policy development support; (BB5) reporting; and (BB6) alignment of internal activities (for example, administration, procurement and treasury). Therefore, Paris alignment has a project-screening element (BB1 and BB2), a climate finance and policy element (BB3 and BB4) and a corporate element (BB5 and BB6). Complementing their approach to climate change, MDBs are also collaborating to enhance the way that broader environmental considerations are built into decision-making (see, for example, the *MDB Joint Nature Statement* (MDBs, 2021a)). The MDBs are the African Development Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank, the EBRD, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank, and the World Bank Group (International Finance Corporation, the Multilateral Investment Guarantee Agency and the World Bank).

1.17. The Bank's approach to Paris alignment for climate change adaptation entails demonstrating that each project meets the following two conditions:

a. physical climate risks have been identified and addressed; and

b. its activities do not undermine climate resilience in the context in which the project operates.

1.18. A project must meet each of these four conditions to be determined as Paris aligned. For some projects, this will be straightforward (for example, projects with a limited carbon footprint or those not exposed to physical climate risks), while for others (particularly those that entail significant GHG emissions or are exposed to material physical climate risks), this will require detailed analysis, drawing on complementary analytical tools and evidence.

1.19. For alignment with the mitigation goals of the Paris Agreement, the Bank will use a two-step process that takes into account the degree of uncertainty surrounding the alignment of a specific project.

a. The first filter is a general screening that identifies project types for which there is high certainty as to Paris alignment. The general screening will use the "aligned" and "not aligned" lists of project types agreed by the MDBs (see Annex 2). Projects on either list will be assigned the corresponding determination and no further review will be required. Any investment that meets the criteria of the European Union (EU) taxonomy for sustainable activities for a "substantial contribution" to climate change mitigation will also be determined to be aligned. Projects on either list will be assigned the corresponding determination and no further review will be required. Furthermore, projects with a financing amount of €5 million or less will be determined to align with the Paris Agreement mitigation goals if not in a high-emitting sector (see Annex 5).

b. The second filter is a "specific assessment", applicable to projects whose alignment cannot be determined based on the general screening. The filter uses the following analytical tools: a review against nationally determined contributions (NDCs) and any long-term strategies (LTSs) and other policy plans underpinning them; a review against low-carbon pathways (LCPs), including benchmarks and criteria derived from them; the application of carbon lock-in tests; and, for relevant projects, an economic viability test based on an assessment using a shadow carbon price. The evidence provided by these tools will be combined to determine Paris alignment.

1.20. For alignment with the adaptation goals of the Paris Agreement, the Bank will use a three-step process:[9]

a. establishment of the climate risk and vulnerability context of a project to identify potentially materially relevant physical climate risks;

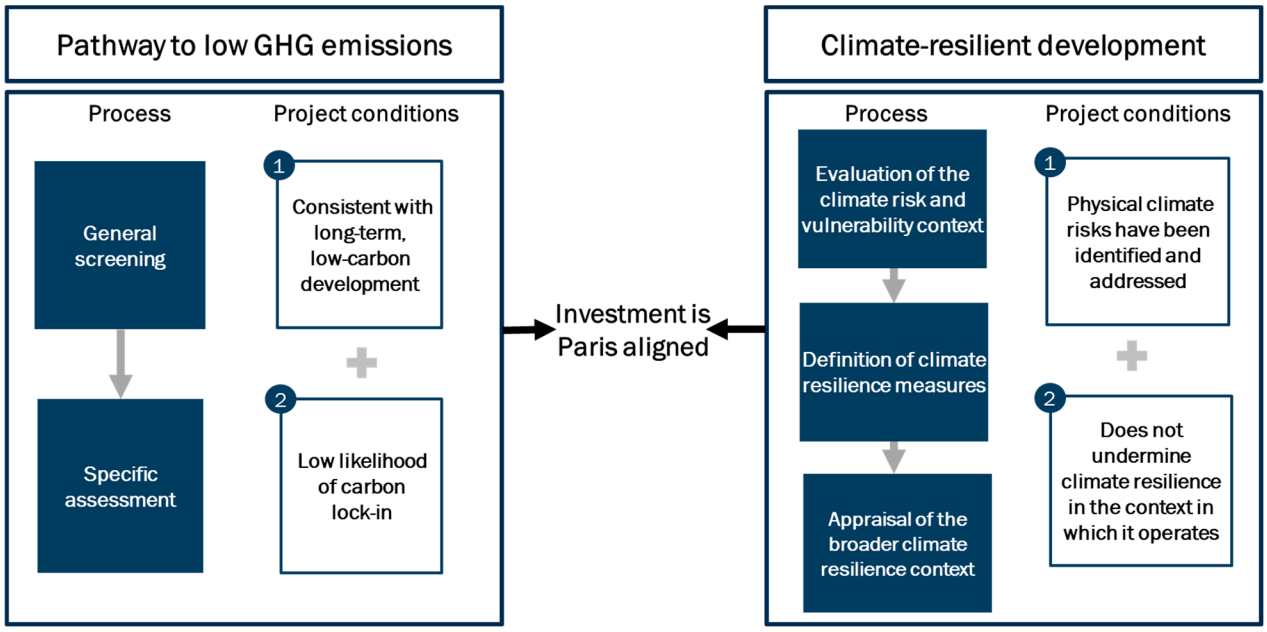
b. where physical climate risks are material, definition of climate resilience measures to build into project implementation; and

c. appraisal of the broader climate resilience context of the project to ensure that it does not contravene national policies for adaptation or the climate resilience of the wider system (for example, exacerbate climate risks for communities or businesses in its vicinity or for broader supply chains).

1.21. Figure 1.2 summarises the EBRD's Paris Agreement alignment approach for directly financed investments.

[9] Note, projects of €5 million or less will be determined to be aligned with the Paris Agreement adaptation goals if their activities are not in "climate-vulnerable" sectors.

Figure 1.2. The EBRD's Paris Agreement alignment approach – direct finance



Indirectly financed EBRD investments

1.22. Based on an MDB framework developed for indirectly financed investments through financial intermediaries, the EBRD's approach to determining Paris alignment for indirectly financed projects comprises four pillars.

Pillar 1: Counterparty commitment to the Paris Agreement. EBRD counterparties, referred to as partner financial intermediaries, or PFIs, must be committed to working to align their financial flows with the goals of the Paris Agreement.

In addition, transactions with PFIs must comply with either Pillar 2, or Pillars 2, 3 and 4 together:

Pillar 2: Sub-transactions filter. PFIs will be required to meet minimum requirements to ensure that projects are structured in such a way that provides confidence in the Paris alignment of sub-transactions financed by EBRD proceeds. This includes application of the Bank's Environmental and Social Policy[10] and the fossil-fuel exclusions set out in its Energy Sector Strategy.[11]

Pillar 3: Counterparty assessment to understand climate-related business practices. PFIs will be assessed on their current approach to climate action relative to leading market and regulatory practices to understand the extent to which their financial flows are aligned with the goals of the Paris Agreement.

Pillar 4: Transition plan. PFIs will be required to make progress on alignment with advanced climate-related business practices to ensure that they are credibly aligning financial flows with the goals of the Paris Agreement. Progress will be assessed against time-bound milestones.

1.23. This approach applies to EBRD transactions with financial intermediaries, the majority of which are banks, regardless of their size or location. Taken together, the pillars aim to facilitate systemic change in the PFIs with which the EBRD works. This approach builds on the EBRD's existing climate financing to PFIs, which focuses on providing funds earmarked for climate finance to sub-transactions.

[10] See EBRD (2019a).

[11] See EBRD (2023c).

1.24. One route to determining Paris alignment couples the general commitment set out in pillar 1 with specific controls on the use of EBRD proceeds as part of pillar 2. The alternative route, combining pillars 1, 2, 3 and 4, relies on both control over the EBRD's use of proceeds and the transformation of the Bank's PFIs at the institutional level, ensuring the progressive alignment of all of their activities with the goals of the Paris Agreement.

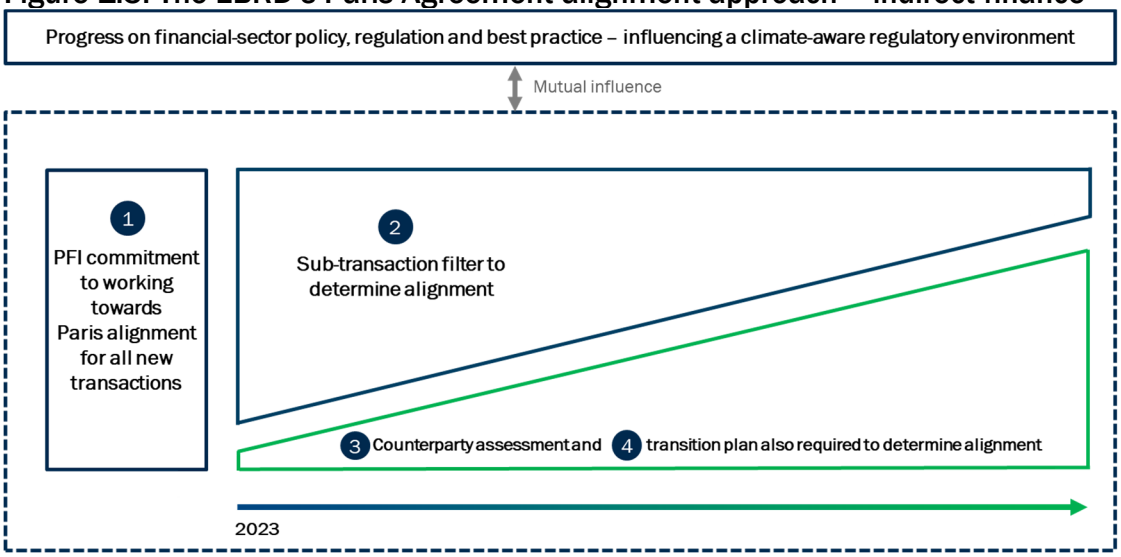
1.25. Central to this transformational approach is the design and implementation of a PFI-specific transition plan under pillar 4. Addressing priority areas of improvement that will be defined by the implementation of an assessment under pillar 3, the transition plan will set out credible milestones to demonstrate that the PFI is on a trajectory that will ensure its financial flows become aligned with the Paris Agreement goals in a timeframe consistent with those goals. There will be three requirements of the PFI as part of the transition planning process: (1) to commit publicly to Paris alignment; (2) to set out clear near-term actions it will take to deliver on that commitment; and (3) to publicly disclose the actions it will take as part of the transition plan.

1.26. Initially, determining the alignment of most EBRD indirect finance transactions will rely on the application of pillars 1 and 2. However, the EBRD will scale up the application of pillars 3 and 4 for its PFIs over time, aiming at a wholesale realignment of financial flows within the economies in which the Bank invests.

a. From the outset, pillars 3 and 4 will apply to some transactions – notably those for which there is no defined use of proceeds or where PFIs are exposed to material transition and physical climate risks. These transactions will require the application of pillars 3 and 4 from the start because the sub-transactional approach is not possible (for example, equity or general-purpose liquidity) or there remain residual risks in sub-transaction financing.

b. The implementation of pillars 3 and 4 will be phased in gradually for other PFIs. In line with the Bank's strategic priorities for its work in the financial sector, the EBRD will work with all of its PFIs to align their financial flows – covering all of their lending, not just the lending funded by the EBRD – with the goals of the Paris Agreement. Accordingly, the Bank expects the majority of its new transactions with PFIs to be covered under pillars 3 and 4 within four years from the implementation of this methodology (that is, 2027). This phasing, along with the expected ramp-up of the use of pillars 3 and 4 as additional requirements for alignment determination, is illustrated in Figure 1.3.[12]

Figure 1.3. The EBRD's Paris Agreement alignment approach – indirect finance



[12] See EBRD (2021b). The EBRD's Financial Sector Strategy 2021-25 makes clear the aim to evolve from a "use of proceeds" model to a comprehensive institutional capacity-building model to scale up green financing, reduce climate risk and accelerate the low-carbon transition.

Other financial instruments

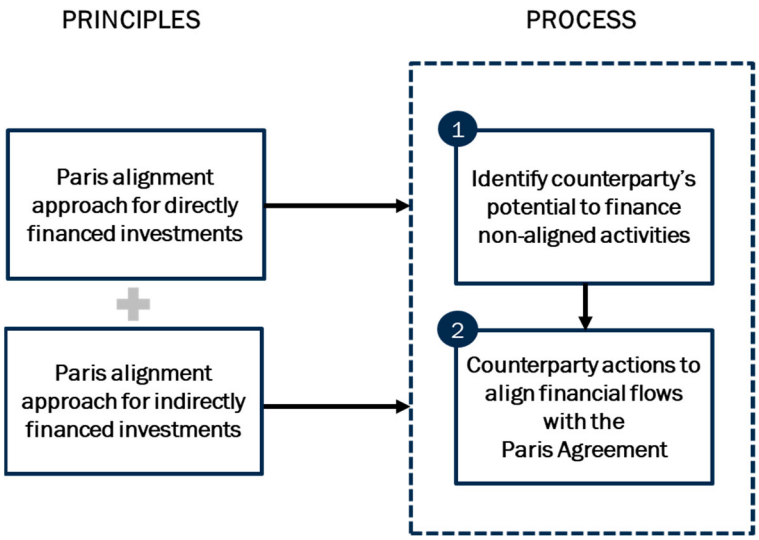
1.27. The alignment approaches to directly and indirectly financed investments set out in sections 2 and 3 apply to most EBRD investments. However, for a small number of investment types, the approaches are not applicable, as their specific features require elements of both.

1.28. In general, where EBRD financing is not tied to specific capital expenditure, economic activities or assets – or their assessment is not possible – Paris alignment determination will be based on an assessment of the economic activities of the counterparty. The assessment will follow a two-step process:

Step 1: Identify the counterparty's potential to finance not-aligned activities. This step will draw on the principles of the direct finance approach to identify the likelihood that the counterparty will carry out economic activities that are not aligned with the Paris Agreement. If the counterparty is predominantly engaged in economic activities that present a low risk of misalignment, the related investment will be determined as aligned. Otherwise additional assessment to determine alignment will be required under step 2.

Step 2: Counterparty actions to align financial flows with the Paris Agreement. This step draws on pillars 1, 3 and 4 of the indirect finance approach. Where the counterparty has in place actions or measures to ensure its activities are aligned with the Paris Agreement goals, then the EBRD will determine the related investment to be aligned. Otherwise the counterparty will be required to commit to actions to ensure it is credibly aligning its activities with the goals of the Paris Agreement. The progress of the counterparty's actions will be assessed against time-bound milestones.

Figure 1.4. Framework to determine the Paris alignment of other financial instruments



Methodology structure

1.29. The remainder of this methodology describes the approach for directly financed investments (section 2), indirectly financed investments (section 3) and other projects requiring a composite approach, drawing on the approaches set out in sections 2 and 3 (section 4). Context and further detail relevant to the methodology can be found in the supplementary material.

2

Determining the Paris Agreement alignment of directly financed EBRD investments

Considerations in determining the alignment of directly financed investments

2.1. An EBRD investment that is directly financed needs to be aligned with both the mitigation and adaptation goals of the Paris Agreement to be considered aligned.[13] This section sets out separately the process for determining alignment with mitigation and adaptation goals.[14]

2.2. The approach is supported by the following supplementary information: joint MDB "aligned" and "not aligned" project lists (Annex 2), the Bank's approach to conducting the economic viability test to inform the determination of alignment with the Paris Agreement's mitigation goals (Annex 3), and sector application guidance based on the constituent elements of the approach in this section (Annex 4).

Alignment of projects with the mitigation goals of the Paris Agreement

2.3. The mitigation goal of the Paris Agreement is expressed in terms of a global temperature target, specifically, "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".[15]

2.4. Determining the alignment of a project requires evaluating how it fits into this global goal and drawing a link between them. The Paris Agreement offers guidance on drawing this link, including:

a. the features of a global emissions trajectory (Article 4.1): "reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties"; "rapid reductions thereafter"; and "achieve a balance between anthropogenic emissions by sources and removals by sinks of GHGs (that is, 'net-zero' emissions) in the second half of this century";

b. the need to reflect different national contexts, in particular (Article 2.2): "equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances"; and

c. the mechanisms by which countries should set out their contribution to the aims of the Paris Agreement, for example, through the development and refinement of NDCs (Article 4.2) and LTSs (Article 4.19).[16]

2.5. Even with this guidance, there are a number of complexities in determining the alignment of individual projects.

a. The specific trajectory of GHG emissions will vary from country to country and sector to sector and often be non-linear. The role of any single project in a given trajectory will be subject to uncertainty.

[13] The scope of a directly financed investment is a project where the EBRD has a first-hand relationship with a counterparty that is using EBRD financing for specific capital expenditure. This differs from an indirectly financed investment, where the eventual sub-transaction or sub-project is financed through an intermediary that has a financing relationship with the EBRD (different aspects covered in sections 3 and 4). The approach in this section will also be used, where possible, where any EBRD financing involves clearly defined economic activities that can be assessed (including acquisition financing, corporate bonds and refinancing). For bonds, the approach will rely on the use of proceeds defined in the bond documentation; regulatory constraints or the speed of the transaction may not in some cases allow for the assessment set out in this section. The EBRD will nonetheless ensure that material risks of financing activities that are not aligned are addressed as part of the transaction.

[14] The scope of this section includes financing through the Bank's Risk Sharing Facilities (RSF) with a Partner Financial Institution (PFI). Where a PFI is assessed as having climate-related business practices that are "advanced practices" (see section 3 for further details), all projects financed by the PFI as part of EBRD's RSF will be determined automatically aligned for Paris alignment.

[15] See United Nations (2015a).

[16] Ibid.

b. Policymakers in governments have choices to make on how to share efforts to pursue the mitigation goal by sector and over time. These choices may change with new developments.

c. The Paris Agreement requires the submission of an NDC based on the "highest possible ambition". The aggregate commitments in current NDCs are insufficient to secure an emissions trajectory consistent with the global temperature goals.[17] Moreover, NDCs and associated LTSs tend not to be sufficiently granular to determine the alignment of an individual project. Accordingly, only in rare cases will alignment with an NDC be sufficient to give assurances as to alignment with the Paris Agreement goals.

d. Even with robust NDCs and LTSs, the necessary international and national-level policy framework and policy signals must be in place to ensure they are realised – something that is often not the case at present.

2.6. A substantial amount of reference material is available to help overcome these complexities, building on the guidance of the Paris Agreement, and shape a more informed view on the alignment of individual projects. These are linked, either explicitly or implicitly, to LCPs and set out how specific countries and/or sectors can decarbonise in line with the goals of the Paris Agreement. They serve as guides, rather than prescriptive decision-making tools, and uncertainties will remain as to the role of specific projects in a Paris-aligned world, even if there is support for the project in external references.[18]

2.7. Such uncertainties can be investigated further by assessing whether activities could result in carbon lock-in. Carbon lock-in occurs when technical, economic or institutional factors mean an asset will continue to operate, even though there are economically preferable, lower-carbon options to replace it. Assessing activities for the risk of carbon lock-in – a risk that exists on a spectrum from low to high – is a means of clarifying the uncertainties surrounding the potential alignment of such activities with the goals of the Paris Agreement, especially when they appear to pose a material risk of non-alignment, for example, because they have a significant emissions footprint.

Assessment approach

2.8. Related to mitigation goals and in this context, the Bank's approach to Paris alignment entails demonstrating that each project meets the following conditions:

a. consistency with long-term low-carbon development, to give assurance that the project is part of a transition to a future consistent with the Paris Agreement mitigation goals; and

b. a low likelihood of carbon lock-in, to give assurance that the project does not enable an emissions-intensive asset to continue to operate when economically preferable, lower-carbon options could replace it.

2.9. To assess these alignment conditions, the Bank will use a two-step filtering process that takes into account the degree of uncertainty surrounding a specific project's alignment: (1) a "general screening" and (2) a "specific assessment". The general screening will use the "aligned" and "not aligned" lists of project types agreed by the MDBs, criteria from the EU taxonomy for sustainable activities and, for projects of €5 million or less, an assessment of whether they are in high-emitting sectors.[19] If the general screening produces a conclusive determination, no further assessment of that project is needed. Other projects will require a specific assessment.

[17] See UNEP (2020).

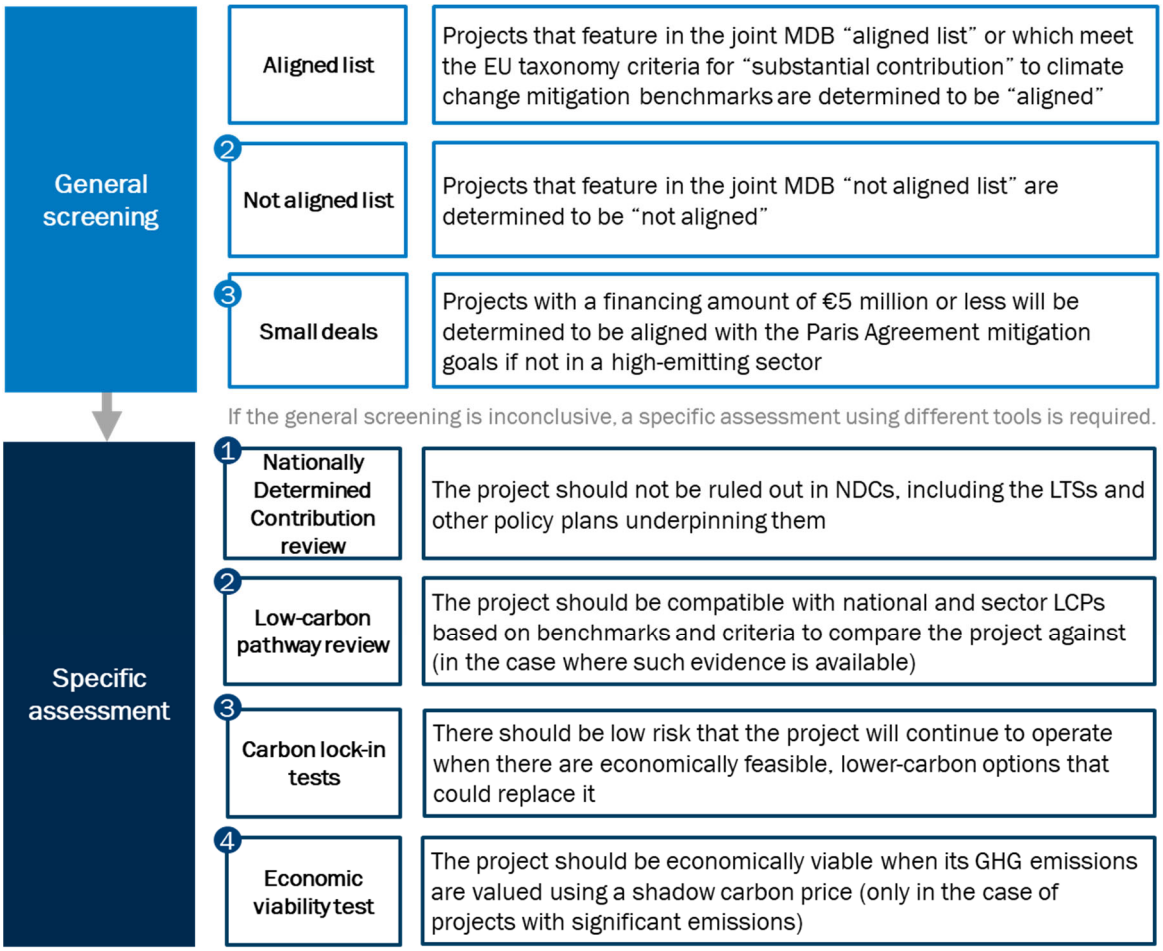
[18] An LCP is an analytical view of the evolution of a sector/country based on current best science to achieve rapid decarbonisation and a transition towards carbon neutrality in line with the goals of the Paris Agreement.

[19] See European Commission (n.d.).

2.10. The "specific assessment" will draw on a range of different and interrelated analytical tools: (1) a review against NDCs and the LTSs and other policy plans underpinning them; (2) a review against LCPs, including benchmarks and criteria derived from them; (3) the application of carbon lock-in tests; and (4) for projects with significant GHG emissions, an economic viability test, based on an economic assessment using a shadow carbon price. All of the outputs of these reviews and tests will be considered together in determining a project's alignment and set out in the relevant project documentation.

2.11. The overall approach is illustrated in Figure 2.1 and explained in detail below.

Figure 2.1. Approach to assessing the alignment of projects with the mitigation goals of the Paris Agreement



General screening

2.12. The general screening filter is based on the "aligned" and "not aligned" lists of activities jointly developed by the MDBs to help determine the Paris alignment of projects. In some cases, activities are subject to accompanying conditions. Both lists of activities, as well as the accompanying conditions, are set out in Annex 2.[20]

[20] For some project types, this alignment determination is subject to a number of general and sector-specific conditions. For example, low-carbon agriculture is determined to be automatically aligned, unless it involves expansion into areas of high carbon stock or biodiversity value.

2.13. If a project's activities are included in the MDB "aligned" list and meet any accompanying conditions, it will automatically be deemed aligned. Examples of such projects are the generation of electricity from solar photovoltaic (PV) panels or onshore wind, the manufacture of electric vehicles, or projects with insignificant GHG impact, such as investments in healthcare and education.

2.14. The screening criteria used to define "substantial contribution" under the EU taxonomy for sustainable activities will also be incorporated into the EBRD's general screening filter.[21] Projects that make a substantial contribution to climate mitigation objectives, as set out in the EU taxonomy regulation,[22] will be determined to be aligned for all economies in which the EBRD invests, including those outside the EU.

2.15. If a project's activities are included in the joint MDB "not aligned" list, it will automatically be determined to be "not aligned". The "not aligned" list agreed by the MDBs comprises coal mining and extraction and electricity generation that involves either coal or peat. This list may be updated and extended in future.

2.16. For projects of €5 million or less, the EBRD will apply a simplified approach for screening. These projects typically finance SME clients in non-emission-intensive sectors. Consequently, in most cases, the possibility of EBRD financing activities that are not aligned is low. Therefore, projects with a financing amount of €5 million or less will be determined to be aligned with the Paris Agreement mitigation goals if the project is not in a high-emitting sector. High-emitting sectors are defined in Annex 5.

2.17. Projects that pass the general screening filter are determined to be "aligned" or "not aligned" without detailed analysis of the national context. No further action to demonstrate Paris alignment is required for such projects.

Specific assessment

2.18. Projects that do not result in an alignment determination at the general screening stage will be subject to specific assessment using a variety of tools:

a. review against NDCs, including the LTSs and other policy plans underpinning them

b. review against LCPs and related benchmarks and criteria

c. carbon lock-in tests

d. an economic viability test, incorporating a shadow carbon price.

2.19. In all cases, tools (a)-(c) are used. The fourth (an economic viability test) is used when specific circumstances indicate that an economic viability test using a shadow carbon price is necessary and informative, as set out Annex 3.

2.20. The following sub-sections detail the tools and how they will be used.

[21] The EU taxonomy is a classification system consisting of a list of economic activities and accompanying screening criteria. Sustainable economic activities "substantially contribute" to at least one of six defined environmental objectives and "do no significant harm" to any of the other objectives, while meeting minimum social safeguards. The six environmental objectives of the taxonomy are climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. Accompanying legislation came into force in July 2020 and ongoing refinements will be guided by the EU Platform on Sustainable Finance.

[22] See European Union (2020).

Review against NDCs, including the LTSs and other policy plans underpinning them

2.21. NDCs are determined unilaterally and normally include targets for GHG emission reductions, reflecting a country's "highest possible ambition". NDCs are submitted at a maximum of five-yearly intervals as part of the Paris Agreement mechanism. Each NDC must be more ambitious than the previous one (the ratchet mechanism). Although NDCs express emission reduction targets (and, therefore, tend not to contain detailed and comprehensive information on the evolution of economic activities in all sectors), they can include specific commitments relevant to a project (for example, ruling out activities in a certain sector). In addition, NDCs are typically underpinned by LTSs and other policy plans, which are important additional reference points rooted in the Paris Agreement.

2.22. To date, total aggregated country commitments to reducing GHG emissions, typically only extending to 2030, are insufficient to meet the goals of the Paris Agreement. Moreover, not all countries have produced associated LTSs and/or specific policy plans to accompany their NDCs (for example, the application of carbon pricing policies).

2.23. As a result, the review of NDCs (including the LTSs and other policy plans underpinning them) is a necessary minimum step, but not sufficient in and of itself to determine Paris alignment. In future, NDCs may become sufficiently ambitious and detailed, allowing them to be used as the principal piece of evidence in determining the alignment of individual projects. This would normally require the NDC to include, or be underpinned by, a sufficiently detailed LTS.

2.24. If a project entails investment in an activity that is explicitly ruled out by the NDC, it will be determined as "not aligned". In all other cases, including if a project involves investment in an activity that is either not mentioned explicitly or for which there is support in the NDC, it will require the use of the other specific assessment tools to determine alignment.

2.25. NDCs (including LTSs and other policy plans underpinning them) will be reviewed based on formal NDC submissions to the United Nations, collated in the United Nations Framework Convention on Climate Change (UNFCCC) NDC Registry. Other NDC "trackers" may be also used for context in assessing national climate-change ambitions (for example, climate action trackers).

Low-carbon pathway review

2.26. When LCPs are available, they can provide information to inform the assessment of individual projects for Paris alignment. Consequently, LCPs and related benchmarks and criteria, must be credible and linked to the mitigation goals of the Paris Agreement. The requirements for credible LCPs are presented in Box 2.1, and what constitutes credible benchmarks and criteria derived from them is explained below. The use of an LCP allows the tailoring of the assessment to the country or sector context, reflecting the project's specific circumstances.

2.27. Projects for which a suitable LCP (including benchmarks and criteria derived from them) is not available will rely on carbon lock-in tests (and, where applicable, an economic viability test) to determine alignment.

2.28. Where a suitable LCP is available, the following information (if present) can be used to compare the LCP outputs with project-specific characteristics:

a. the types of technology and primary energy equivalent used by the project and their evolution over time

b. the project's characteristics – in particular, its size relative to the size of the sector overall, emissions intensity and operating regime

c. any assumptions on wider sector developments – for example, the phase-out of technology, types of energy and policy signals – should be consistent with the assumptions used in a project's business case.

2.29. It is also possible to use existing, publicly available benchmarks or criteria derived from LCPs (or that serve a proxy for an LCP). These benchmarks and criteria can be used to see if the project fulfils a set of relatively simple technical criteria that can be verified easily and practically (such as emissions intensity per unit of output). Meeting benchmarks and fulfilling criteria gives confidence that the project is consistent with low-carbon development. Examples of existing low-carbon benchmarks and criteria that the Bank may use include:

a. sector benchmarks, as defined by leading expert bodies, such as those used by the Transition Pathway Initiative, Science Based Targets Initiative and Paris Agreement Capital Transition Assessment (PACTA) (global)

b. energy-efficiency standards for equipment and industrial activities introduced to support LTSs (global and regional)

c. rating schemes and benchmarking that may become available, particularly in relation to the disclosure of sustainability performance data

d. the "do no significant harm" criteria for mitigation set out in the EU taxonomy and benchmarks used for the EU Emissions Trading System (regional).

2.30. Benchmarks could also be derived from global and/or sectoral LCPs.[23] The benchmark would be calculated based on the evolution of the relevant LCP over the lifetime of the project and represent the Paris-aligned emission-intensity level a project should achieve. Meeting or exceeding this level would give confidence that the project was consistent with low-carbon development. The calculation of such a benchmark would be based on:

a. the evolution of the pathway

b. the lifetime of the project

c. the specific emissions per output of the project

d. the project scope and context, for instance, whether it directly replaces old capacity or is new capacity.

2.31. The choice of LCP and how it is used depends on the characteristics of the project and the availability of information.[24] For any project, only one of three types of LCP will be used, in following order of preference:

a. An existing country-endorsed LCP. When available and suitable, a country-endorsed LCP should be used.

b. A sector-specific global or regional LCP (for steel, for example), including benchmarks and criteria that have been derived from sector-specific LCPs. If a country-endorsed LCP is not available or not suitable for the sector in question, a sector-specific LCP (or related criteria and benchmarks) could be used on condition that the selected LCP was sufficiently representative of the project type and its operations.[25]

c. A bespoke LCP developed for a specific country and/or sector (likely to have been developed in cooperation with the Bank or other development partners). A bespoke LCP for a specific country and/or sector should be used in cases not covered by the two other types of LCP.

[23] A non-exhaustive list of externally produced scenarios that can be drawn upon are: (1) those documented on the Intergovernmental Panel on Climate Change's online database; (2) the Network of Central Banks and Supervisors for Greening the Financial System to guide central banks in scenario analysis; (3) the International Energy Agency (IEA) including its Net Zero Emissions by 2050 Scenario; (4) the Transition Pathway Initiative; (5) the Mission Possible Platform; (6) the Science Based Targets initiative; (7) the International Renewable Energy Agency for the World Energy Transitions Outlook.

[24] Note the scope of assessment here does not refer to corporate-level LCPs.

[25] It is important that the operational mode covered by the LCP is sufficiently representative for the expected project's operational mode. This may not be the case if, for example, the project's operational mode is expected to change significantly over time or when the project's alignment depends critically on other activities in the sector, region or economy.

Box 2.1. Criteria for the use of LCPs in the EBRD's Paris alignment approach for directly financed investments

The Bank expects any LCP used to have the following features:

- It should be consistent with the climate goals of the Paris Agreement. This requirement will be expressed in terms of the year by which the sector reaches net-zero emissions, which for CO_2 emissions would typically be no later than 2050 (the specific year may be before or after 2050 depending on country and sectoral circumstances). It should also be broadly consistent with achieving peak emissions as early as practically feasible, which will be no later than 2030 in most sectors.
- It should include any critical cross-sectoral interdependencies.
- It should be based on primary bottom-up modelling. This modelling should be reflective of underlying technical and economic considerations (typically some form of cost optimisation).
- It should have transparent assumptions and be based on best available information in the relevant region, country and/or sector. Information from external sources should clearly referenced.
- It should incorporate any activities to which policymakers have already committed.
- It should be underpinned by broad-based stakeholder engagement.
- It should be time relevant. In other words, it should have been prepared relatively recently, as many sectors are characterised by significant technological progress and pathways will need to be up to date.
- It should be possible to readily confirm the important characteristics of the project from the LCP.

When the Bank relies on bespoke LCPs, the LCP is expected to have the following features (in addition to the ones above):

- It must be specific to the country and explicitly cover the relevant sector.
- It should be prepared in partnership with the relevant stakeholders, including national authorities. In this context, partnership means extensive engagement by the relevant national authorities, including support for developing a pathway, consultations during the development phase and support for its findings.

The specific project under review must be readily identifiable from the LCP to allow inferences to be drawn about the project (see paragraph 2.28).

In addition, where possible, all LCPs the Bank uses should include gender-responsive considerations, in line with the United Nations Framework Convention on Climate Change's enhanced Lima work programme and action plan on gender.

Carbon lock-in tests

2.32. Carbon lock-in occurs when technical, economic or institutional factors mean an asset will continue to operate in an emissions-intensive way, even when there are feasible and economically preferable, lower-carbon options that could replace it.[26] A lower-carbon option in this context refers to an asset for which there is a high degree of certainty that it will be economically viable in a world in which the goals of the Paris Agreement are met.[27]

[26] Carbon lock-in is a widely used term in the policy literature and by MDBs, financial institutions and certain frameworks (such as the Stockholm Environment Institute (Erickson et al., 2015), Economic Consulting Associates (2015) and CDC Group (CDC, 2020). The scope of carbon lock-in refers to GHGs on a production basis per conventional GHG accounting approaches.

[27] In many sectors, the choice of a lower-carbon option will be clear – for example, solar PV or onshore wind in the power sector. It is important, however, that a lower-carbon option deemed an alternative to an emissions-intensive asset be able to meet similar needs.

2.33. Carbon lock-in is distinct from the concept of stranded assets.[28] The risk of an asset becoming stranded is primarily an issue of financial risk. It is, therefore, part of the Bank's considerations with regard to sound banking and risk management and not explicitly part of Paris alignment considerations.[29]

2.34. Carbon lock-in is intrinsic to the concept of Paris alignment. If an asset does not displace future investments in lower-carbon options (and, therefore, does not result in carbon lock-in), the risk of the asset undermining efforts to achieve the goals of the Paris Agreement is low.

2.35. The risk of carbon lock-in will be assessed as follows:

a. If the project entails investment in assets that will cease to operate in an emissions-intensive way in the near future, the risk of carbon lock-in is low and no further review is required. What constitutes the "near future" will generally be shorter than 10 years.

b. If the project does not involve investments in any physical assets (such as for short-term commodity trading), the risk of carbon lock-in is low and no further review is required.

c. If the project meets the carbon lock-in criteria that have been developed for specific sectors, as set out in Annex 4.

2.36. For all other projects, a detailed assessment will be conducted by considering the different routes through which investment in a project can result in lock-in, reflected in the form of questions.

2.37. While the specific lock-in test questions will be tailored to individual sectors, they will focus on the following aspects:

a. The project's commercial arrangements. For example, do the project's commercial arrangements create a risk that it will continue to operate even when lower-carbon options that could replace it become economically preferable? Does the project benefit from a long-term contract that guarantees operation at high utilisation rates?

b. The market structure of the project sector (and, if relevant, related sectors).[30] For example, does the market structure mean a project risks continued operation when lower-carbon replacements are economically preferable (for instance, because there is a lack of regulatory framework/market signals to attract low-carbon investments or because the project has a dominant market position that would deter market entry)?

c. The wider project context. For example, does the country in which the EBRD is investing have a credible commitment to moving towards decarbonisation, for example, through policies such as carbon pricing? Does the client have a corporate climate-governance action plan? Does the project have characteristics that may make it politically difficult to displace in future (for example, because it is a significant source of employment)?

d. For projects where the economic viability test applies, an additional aspect of carbon lock-in will be considered: the cost structure of the assets covered by the project and how these compare with the costs of future lower-carbon alternatives and (current) more emissions-intensive alternatives. Assets with a large amount of sunk costs and relatively lower operating costs may be difficult to displace once the sunk costs have been incurred. The

[28] In the context of climate change, an asset can become stranded when actions to meet climate targets result in the asset suffering from an unanticipated or premature write-down, devaluation or conversion to a liability.

[29] Stranded assets and carbon lock-in risks are related and interlinked, and will draw on similar source information, but can potentially come into conflict. A carbon-intensive asset may avoid becoming stranded if its contractual framework allows it to continue operating at the expense of less carbon-intensive assets (for example, because it benefits from a long-term contract that guarantees operation). In such cases, however, the asset is likely to result in carbon lock-in.

[30] The scope of the lock-in tests will extend to the relevant markets in which the project may create a risk of lock-in. The route by which a project leads to lock-in may depend on its interaction with other markets. For example, to assess whether a gas pipeline leads to carbon lock-in, it will be important to consider the impacts of the gas pipeline in the downstream markets, such as residential or commercial heating and industrial use, and determine whether the pipeline might lead to investments in other markets that caused carbon lock-in. Such dependencies will be covered by the carbon lock-in tests.

risk of this happening can be assessed by considering how the cost of the asset, with and without the sunk costs, compares with the cost of alternatives.[31]

2.38. If risks of carbon lock-in are observed, the project will be required to incorporate features that ensure the risk of carbon lock-in are low. While these features will be project specific, the following aspects should be considered:

a. Whether the project demonstrates low-carbon readiness. This will be ascertained by assessing whether the project can be developed for low-carbon use in the near future, potentially with limited investment, and taking into account the wider technological, economic and/or policy changes that may be needed to enable this. To demonstrate low-carbon readiness, the following requirements will be considered: (1) the technical feasibility of the project being developed for low-carbon use; (2) technological, economic and/or policy changes that result in low-carbon use becoming economically viable (occurring before the end of the technical life of the asset); and (3) the likelihood of a switch to low-carbon use, for example, because it will be commercially attractive to do so.

b. Client commitments to decarbonise in line with the mitigation goals of the Paris Agreement. Where the project is accompanied by a client commitment to decarbonise – either at the asset or company level – this will ensure that the asset will not operate in an emissions-intensive way, even when there are feasible and economically preferable lower-carbon options that could replace it. This commitment being credible should be guided by relevant LCPs (see Box 2.1) and emerging guidance on corporate "transition plans".

2.39. The approach to evaluating carbon lock-in – specifically, the depth of the analysis – will depend in part on the outputs of the other tools. For example, if a project does not have a significant emissions footprint and is consistent with a conservative benchmark derived from an LCP, the lock-in risk is likely to be lower and the scope of the lock-in evaluation can be more limited. Alternatively, projects for which a suitable LCP (including benchmarks and derived criteria) is not available may require a more in-depth evaluation of lock-in risks.

[31] In particular, to assess the likelihood of an asset's short-run costs remaining below the expected future long-run costs of lower-carbon alternatives and to understand whether the asset is likely to compete against future low-carbon assets or current assets that are more emissions intensive.

Economic viability test

2.40. A carbon price is a critical policy instrument in achieving the goals of the Paris Agreement. It seeks to put a monetary value on GHG emissions and correct for associated market failure. For a given combination of policies, carbon prices can be set at levels that will lead to a pattern of economic activity that meets the mitigation goals of the Paris Agreement. In a world with a universal carbon price set at an appropriate level, only activities consistent with the goals of the Paris Agreement would be economically viable.[32]

2.41. Although there has been substantial progress in recent years, carbon prices remain limited or non-existent in many of the economies where the EBRD invests. In the absence of an adequate market price for carbon, the EBRD will use a "shadow" carbon price as part of an economic viability test.

2.42. The EBRD will undertake an economic viability test when:

a. Projects have significant emissions. Emissions are considered significant if a project leads to an increase of 25,000 tonnes of carbon dioxide equivalent (CO_2e) per year relative to a baseline or has a footprint of more than 100,000 tonnes of CO_2e per year in absolute terms.[33]

b. Insights will be particularly informative. This recognises that the general methodological approach to economic viability is better suited to certain sectors, and insights from the test to inform alignment determination should be additional to those from other tools used for specific assessment.[34]

2.43. The detailed approach to the economic viability test is set out in Annex 3. This defines the Bank's application criteria in addition to the features and assumptions for conducting the economic viability test (including the level of the shadow carbon price).

2.44. Interpreting the results of an economic assessment requires comparing the proposed project with an alternative scenario or "counterfactual" (that is, what would happen in the absence of the project). The choice of counterfactual(s) will depend on the specific investment and be assessed on a project-by-project basis. In general, the Bank will consider how the net present value (NPV) and/or economic cost of the investment compares with other alternatives, including more emissions-intensive and lower-carbon alternatives. These comparisons will be informed by insights derived from the other specific assessment tools.

2.45. If a project is shown to be economically viable in an economic assessment using a suitable shadow carbon price, this contributes to the case for its alignment with the mitigation goals of the Paris Agreement. Similarly, the risk of an investment that is the cheapest of realistically available alternatives being "not aligned" is likely to be lower. Therefore, the economic viability test will check one or both of the following: compared with a baseline, a project has either (a) a higher positive NPV if an economic assessment is based on a cost-benefit analysis or (b) a lower economic cost if a cost-effectiveness analysis is used.[35]

[32] The carbon prices needed to meet the goals of the Paris Agreement depend on other policies that can influence GHG emissions. Each policy mix will require a specific set of carbon prices. This interdependency is one of the sources of uncertainty in determining the "correct" set of carbon prices. For any accompanying policy mix, there can be several combinations of carbon price, which differ by sector and/or country, which collectively meet the goals of the Paris Agreement.

[33] To determine whether emissions are significant, the Bank, in line with its EBRD GHG protocol for assessment of GHG emissions and as set out in its Environmental and Social Policy, will consider Scope 1 (direct) and Scope 2 (indirect or electricity) GHG emissions. Scope 3 GHG emissions (those related to the upstream and/or downstream impacts of the project) will generally not be included, as there is no agreed methodology for these types of impact and there is a risk of double-counting. However, as the EBRD also considers the upstream and downstream impact of its projects, Scope 3 GHG emissions may be taken into consideration for some projects where these are particularly relevant (for example, energy pipelines and roads).

[34] Projects with significant GHG emissions that are determined to be aligned under the general screening step do not require an economic viability test.

[35] The economic assessment for the economic viability test will also incorporate other environmental externalities where valuation is feasible. Recognising that the focus of mitigation is on GHGs, results will be shown in a disaggregated manner.

Alignment of projects with the adaptation goals of the Paris Agreement

2.46. Article 8 of the Paris Agreement sets the global goal for climate change adaptation, or increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience, by:

a. enhancing adaptive capacity

b. strengthening resilience and reducing vulnerability to climate change with a view to contributing to sustainable development; and

c. ensuring an adequate adaptation response in the context of the Paris Agreement temperature goals.

2.47. The world is already experiencing increases in average temperature, shifts in the seasons and an increased frequency of extreme weather events together with chronic climate impacts. There is, therefore, a need for projects to be resilient to the effects of climate change. Moreover, given the uncertainty over future climate impacts, it is important to prepare for the range of potential climate futures.

2.48. At project level, this means that when the EBRD is considering financing a project, it needs to understand the project's vulnerability to climate change and the actions that could build climate resilience. This requires an approach that is (a) context specific, taking into account the specific attributes of the project at its geographical location; and (b) able to understand and assess present and future climate risks.

2.49. To address a project's consistency with the Paris Agreement's adaptation goals, the Bank will draw on the latest information and best-practice principles for climate-resilient financing. This includes the use of the latest climate models and assessing climate resilience over a range of temperature scenarios. It will also draw on policy documents at the national and/or regional level, as appropriate – including NDCs, National Adaptation Plans (NAPs) and their equivalent. Its findings will also draw on the latest insights and project-level criteria of the EU Taxonomy.[36]

Assessment approach

2.50. The Bank's approach to Paris alignment for climate change adaptation entails demonstrating that each project meets the following conditions:

a. material physical climate risks to the project have been identified and addressed

b. project activities do not undermine climate resilience in the context in which it operates.

2.51. The EBRD will use a three-step process (summarised in Figure 2.2) to assess whether these conditions are met:

a. Evaluation of the climate risk and vulnerability context of a project to screen for potentially material physical climate risks.

b. Where climate risks are material, definition of climate resilience measures to address physical climate risks and build climate resilience. This will identify relevant measures (which can be structural or non-structural) to be integrated into the project.

c. Appraisal of the broader climate resilience context, ensuring that the project does not contravene national policies for adaptation or adversely impact the climate resilience of the wider system in question (for example, exacerbate climate risks for communities or businesses in its vicinity or supply chain).

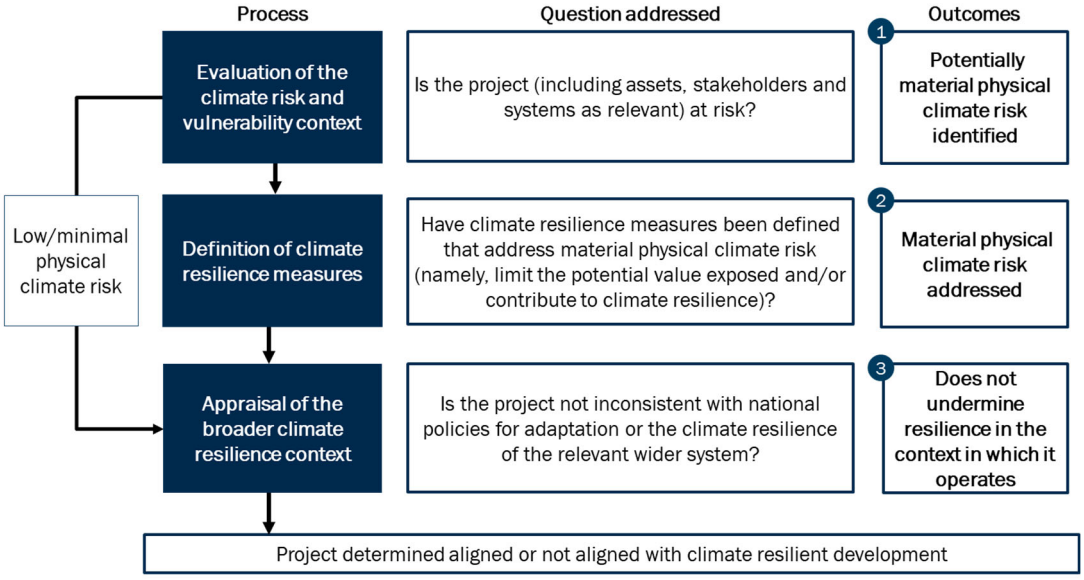
[36] See European Commission (n.d.).

2.52. This three-step process is based on principles agreed by MDBs for assessing an individual project's alignment with climate-resilient development. The three steps consider the local nature of physical climate change impacts. This means there is no positive list of sectors or activities that are automatically aligned. Rather, each project needs to be assessed individually using a process-based approach that takes into account its specific circumstances based on location, sector, nature of business and assets.

2.53. To ensure appropriate focus and insight, the materiality of identified climate risks will inform the level and depth of assessment to be undertaken. Therefore, the approach taken will be commensurate with the size and complexity of the project.

2.54. For EBRD projects of €5 million or less, the EBRD will apply a simplified approach. These projects typically finance SME clients, and where the related financing activities are in a sector that is not "climate vulnerable", the possibility of EBRD financing activities that are "not aligned" is low. Therefore, projects of €5 million or less will be determined to be aligned with the Paris Agreement adaptation goals if their activities are not in "climate-vulnerable" sectors.[37] Other projects will be assessed in accordance with the approach to directly financed investments set out in this section.

Figure 2.2. Alignment of projects with the adaptation goals of the Paris Agreement



Note: Projects of €5 million or less will be determined to be aligned with the Paris Agreement adaptation goals without going through this three-step process, as long as their activities are not in "climate-vulnerable" sectors.

[37] Based on project SIC codes, climate-vulnerable sectors are defined as: accommodation, amusement and theme parks, animal production and rendering, beef processing, beer brewing, beverage manufacturing, biofuel production from vegetable oils, broadcasting and communications, cattle farming, construction of buildings, crop farming, dairy products (non-frozen), edible oil production, educational services, forestry and logging, fruit and vegetable processing, health care and social assistance, highway, street and bridge construction, hydroelectric power generation, mixed or other animal farming and meat processing, non-metallic mineral product manufacturing, nuclear safety activities, other beverage manufacturing, other food manufacturing, pig farming, pork processing, ports and harbours operations, poultry farming and processing, rail transportation, real estate, seafood processing, ship and boat building, soft drinks manufacturing, sugar production, support activities for air transportation, transport – intermodal, water and sewage systems, water transportation, water (purifying and bottling), wine manufacturing and wood product manufacturing.

Step 1: Evaluation of the physical climate risk and vulnerability context

2.55. The starting point is to screen the project for any potentially material physical climate risks. Physical climate risks are a combination of hazard, sensitivity and exposure. The Bank has identified relevant climate hazards for each industry sector.[38] For each standard industrial classification (SIC) code, a sensitivity of "low", "medium", "high" or "very high" is assigned for each hazard. Sensitivity levels are set out in an industry "physical climate sensitivity matrix".

2.56. For each climate hazard that presents a "high" or "very high" risk to the project sector, a determination is made as to the likelihood of exposure to that hazard occurring at the project location(s).[39] This determination makes use of a variety of publicly available geographical climate-risk tools.[40] Exposure likelihood is rated as "not likely", "plausible" or "probable".

2.57. With information on the hazards, sensitivities and exposure, it is possible to identify potentially material physical climate risks. As illustrated in Figure 2.3, a potentially material physical climate risk is defined as either:

a. "high" or "very high" industry sensitivity to a particular hazard and "probable" exposure likelihood or

b. "very high" industry sensitivity to a particular hazard and "plausible" exposure likelihood.

2.58. In addition to this screening process, physical climate risks may be identified through other project-specific assessments (for example through bespoke assessments undertaken during due diligence or site visits for the project). This could identify additional risks, or provide more nuanced detail on risks already identified.

2.59. If there is any potentially material physical climate risk, the assessment moves to step 2. If there are no potentially material physical climate risks, the assessment proceeds directly to step 3.

Figure 2.3. Matrix to identify potentially material physical climate risks

Sensitivity \ Exposure	Not likely	Plausible	Probable
Very high		Potentially material physical climate risk	Potentially material physical climate risk
High			Potentially material physical climate risk
Medium			
Low			

Note: Projects for which the sensitivity exposure combination is shaded grey are not considered subject to potentially material physical climate risk.

Step 2: Definition of climate resilience measures

2.60. This step entails the integration of climate resilience measures into the project in response to the material physical climate risks identified in step 1.

[38] The climate hazards include increasing mean temperatures, extreme heat event, wildfires, extreme wind events, increasing water stress, sea-level rise, drought, flooding, erosion and extreme mass movement.

[39] Where project locations consist of a linear route (such as transport routes or energy distribution projects), the entire route is screened. For projects with multiple geographically distributed locations, if all locations cannot be feasibly assessed, the locations most likely to be exposed to physical climate risks are used.

[40] World Bank – Climate Change Knowledge Portal (CCKP); Swiss Re – CatNet; WRI – AqueductClimate; and Climate Central – Coastal Risk Screening Tool.

2.61. As a starting point, the materiality of the physical climate risks identified in step 1 is confirmed, taking into account additional project information. This more detailed information could result in a different conclusion as to exposure and sensitivity to physical climate risk.[41] Some projects may also demonstrate an inherent resilience to climate change in the way that they have been planned and designed to avoid risks from the outset.

2.62. For each of the physical climate risks confirmed as material, corresponding climate resilience measures are to be integrated into project implementation. The proposed climate resilience measures will be appropriate and meaningful responses that limit the impact of material physical climate risks and/or contribute to enhancing climate resilience. They will correspond to the material physical climate risks identified for each project.

2.63. Climate resilience measures may already be included in the project when it is presented to the EBRD or may result from a climate risk assessment undertaken during project preparation and technical due diligence. Good-practice guidance for such climate risk assessments should be followed where relevant.[42]

2.64. Climate resilience measures may be structural (for example, adjusting infrastructure design or technology selection) or non-structural (for example, changes in operational practices, improved climate modelling or weather forecasting capacities). A range or combination of measures may be relevant in order to address complex multi-dimensional risks. Furthermore, given the inherent uncertainty in climate adaptation planning, flexible approaches and no-regret measures should be prioritised.

2.65. Projects that demonstrate appropriate and meaningful climate resilience measures that address material physical climate risks will move on to step 3.[43] Projects that are expected to be impacted by material physical climate risks and have not documented relevant climate resilience measures in response would be determined to be "not aligned".

Step 3: Appraisal of the broader climate resilience context

2.66. All projects will be subject to checks to ensure that they do not present any inconsistency with national policies or strategies related to climate adaptation or resilience and to ensure they are not expected to impair the climate resilience of the wider system in which the project is located or of which it forms part.

2.67. This step recognises that, in some cases, projects that may not be exposed to physical climate risks may exacerbate climate risks for communities or businesses in their vicinity. For example, projects that use large volumes of water may not be exposed to increasing water stress themselves, but could exacerbate such risks for communities and farmers dependent on the availability of water downstream from their business activities.

2.68. Projects with a greater potential to result in wider systemic impact include (but are not limited to):

[41] For example, a SIC code of "crop farming" is scored with a very high sensitivity to increases in annual mean temperatures. This is relevant to many crops (for example, nut and fruit crops) with high chill-hour requirements. However, heat-tolerant crop varieties (vegetables) typically display lower chilling requirements. This would make them more resilient to warming temperatures than the average crop. Hence, the generic industry code "crop farming" may not adequately capture the sub-sector's sensitivity to increasing mean temperatures.

[42] Good practice guidance such as JASPERS (2017) and ISO 14090 (ISO, n.d.), as well as industry-specific guidance document recommendations should be used.

[43] Addressing physical climate risks means that risks have been understood and managed such that impacts are reduced to an acceptable level. As with all risk-based assessment approaches, there will be a level of residual risk remaining after the implementation of climate resilience measures. The level of acceptable residual risk, which can be managed through normal operational processes, is project and context specific and there are, therefore, no set thresholds applied on a bank-wide level.

a. projects that result in a significant increase in water consumption (or which significantly reduce the availability of water) in an area of high water stress[44]

b. projects that alter existing rivers and watercourses in an area prone to flooding or drought[45]

c. projects with significant land-use change in an area with water stress, flooding, drought and/or erosion concerns. [46]

2.69. All projects will be assessed in the context of national climate resilience. This includes a review of a country's NDC and NAP (if available), ensuring that they do not explicitly exclude the project activities. This ensures that projects are not in conflict with applicable national climate resilience strategies and policies.

2.70. Projects that are deemed to result in potential wider systemic impact will, in addition, be subject to a more comprehensive assessment. This will include an assessment of, for example, international and transboundary agreements, national policies and strategies, sectoral policies and strategies, and local or community-level considerations.

2.71. This step makes use of the Bank's existing processes to guide climate-resilient investment and manage risks (for instance, a project's environmental due diligence, especially in relation to potential impacts on ecosystems and communities).

2.72. Projects that do not conflict with the national/broader climate resilience context (after having already passed the previous steps) will be determined as aligned with the adaptation goals of the Paris Agreement. Projects that are inconsistent with the national/broader climate resilience context and do not pass step 3 will be determined to be "not aligned".

[44] The threshold for significant increase in water consumption aligns with the relevant sections of EBRD's Environmental and Social Policy (EBRD, 2019a) – Annex 2 paragraphs 14 and 15 and performance requirement 3, paragraph 9.

[45] The threshold for alteration of existing rivers / watercourses aligns with the relevant sections of EBRD's Environmental and Social Policy (EBRD, 2019a) – Annex 2 paragraph 13.

[46] The threshold for significant land use change aligns with the relevant sections of EBRD's Environmental and Social Policy (EBRD, 2019a) – Annex 2 paragraphs 17 and 20.

3

Determining the Paris Agreement alignment of indirectly financed EBRD investments

Considerations in determining the alignment of indirectly financed investments

3.1. Indirectly financed investments refer to EBRD investments extended to financial intermediaries that finance a set of sub-transactions to end beneficiaries (through sub-projects or sub-investments). These types of investment require a different alignment approach to directly financed EBRD investments, which involve specific capital expenditures.[47]

3.2. The EBRD's engagement with its PFIs presents an opportunity to accelerate the low-GHG-emission and climate-resilient development required to deliver on the goals of the Paris Agreement. PFIs lend to the whole economy, engaging with the full spectrum of economic actors in the countries where they invest. These actors then invest in activities that could be associated with both climate-related risks (through related GHG emissions and/or exposure to physical climate impacts) and climate-related opportunities. A PFI's portfolio captures the aggregate climate impact of all its sub-transactions. Consequently, by using EBRD transactions with PFIs to promote the alignment of their financial flows with the Paris Agreement, the EBRD can impact financial flows that are many times larger than its own lending volumes.

3.3. The nature of intermediated financing requires assessing either or both of two elements: the nature of sub-transactions funded by the EBRD as well as the wider activities of the PFI. This is because:

a. While most financial instruments used by the EBRD have defined sub-transaction types, a PFI will undertake other financing activities not linked to EBRD financing which may not be aligned with the goals of the Paris Agreement.

b. Where the financial instrument used by the EBRD is not linked to individual sub-transactions, the financial flow is linked to the PFI's general asset pool, comprising sub-transactions from any financing activities of the PFI.

3.4. The focus on "what" and "who" are being financed mirrors emerging regulatory approaches and climate-related initiatives for financial intermediaries.[48] While there is no single, consistent global standard for the Paris alignment of financial intermediaries and guidance is evolving quickly, the Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board in 2015 with the aim of developing consistent climate-related disclosure standards for the private sector, is emerging as a leading framework for climate-related disclosure. As of October 2021, it had been adopted by more than 2,600 financial and non-financial companies in around 90 countries.[49]

3.5. The EBRD will need to revisit its requirements for its PFIs regularly to ensure they reflect early implementation experience, external market initiatives and rapidly evolving regulatory requirements.

[47] The EBRD supports a variety of financial institutions. The scope of this section is applicable to financial intermediaries (principally banks). For financial intermediary projects with non-bank financial institutions (NBFIs), elements of the framework may need to be adjusted to apply to the specific entity or project, while remaining consistent with the overall principles of the approach in this section. In some cases, a financial intermediary's activities will present a low risk of non-alignment with the goals of the Paris Agreement and, where this is the case, the application of pillars 1, 3 and 4 will not apply.

[48] The Partnership for Carbon Accounting Financials (see PCAF, 2021) provides a non-exhaustive mapping of initiatives, methodologies and tools for the financial sector (both banks and investors) linked to climate change.

[49] See TCFD (2021a).

Assessment approach

3.6. In June 2023, a set of Joint MDB Principles for the Paris alignment of intermediated financing were published.[50] The principles recognise the opportunity for MDBs to partner with financial intermediaries to deliver on the goals of the Paris Agreement, but also the challenges inherent in doing so. The MDB principles indicate that:

a. either the MDB financial flow ("transaction based") or the broader activities of PFIs ("counterparty based") can be used as the basis for determining alignment

b. the counterparty-based alignment of a PFI's corporate activities should be based on the development of a "credible alignment pathway" at institutional level, recognising that PFIs may need support to reach the end goal of Paris-aligned corporate practices

c. an approach to Paris alignment should build on and be guided by external market frameworks and best practices for Paris alignment.

3.7. Informed by the considerations and the joint MDB principles set out above, the EBRD's framework to determine the Paris alignment of indirectly financed investments comprises four pillars (illustrated in Figure 3.1):

Pillar 1: Counterparty commitment to the Paris Agreement. EBRD counterparties, referred to as PFIs, must be committed to working towards aligning their financial flows with the goals of the Paris Agreement.

Transactions with PFIs must also comply with either pillar 2, or pillars 2, 3 and 4 combined:

Pillar 2: Sub-transactions filter. PFIs will be required to meet minimum requirements to ensure projects are structured to provide confidence as to the Paris alignment of sub-transactions financed by EBRD proceeds. This includes application of the Bank's Environmental and Social Policy[51] and the fossil fuel exclusions set out in its current Energy Sector Strategy.[52]

Pillar 3: Counterparty assessment to understand climate-related business practices. PFIs will be assessed on their current approach to climate action relative to leading market and regulatory practices to understand the extent to which their financial flows are aligned with the goals of the Paris Agreement.

Pillar 4: Transition plan. PFIs will be required to make progress on alignment with advanced climate-related business practices to ensure they are credibly aligning financial flows with the goals of the Paris Agreement. Progress will be assessed against time-bound milestones.

3.8. Initially, determining the alignment of most transactions will rely on pillars 1 and 2, which focus on the use of EBRD proceeds. From the outset, some transactions, notably those where there is no defined use of proceeds, will also apply pillars 3 and 4. Furthermore, prioritisation for the implementation of pillars 3 and 4 will also be informed by PFIs' exposure to material transition and physical climate risks. These pillars will focus on an assessment of, and improvement in, climate-related institutional practices in the counterparty overall and not the nature of individual sub-transactions.

[50] See MDBs (2023a).

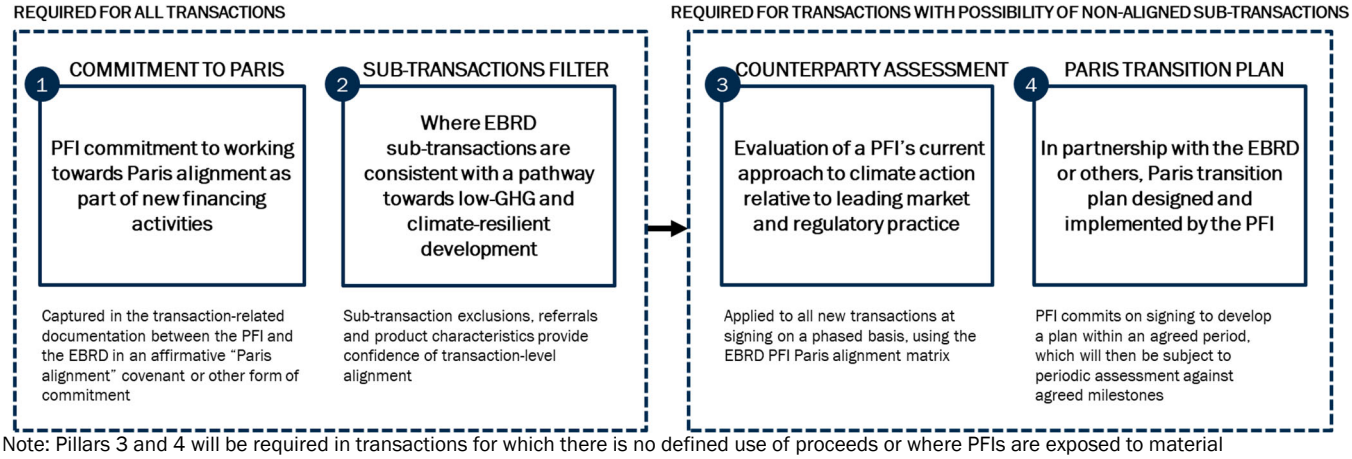
[51] See EBRD (2019a).

[52] See EBRD (2023c).

3.9. However, over time, as markets and regulation continue to shift to a low-GHG-emissions and climate-resilient development model, increasingly more transactions are expected to trigger the application of pillars 3 and 4. This will unlock the systemic impact of the framework to deliver on climate ambition and ensure over time the alignment of all of the financing activities of the PFI. It is the Bank's goal that the majority of its PFIs be addressed under pillars 3 and 4, in parallel with new transactions, within four years (as illustrated in Figure 3.2). At the end of 2024, the EBRD will review the timeline for applying pillars 3 and 4 to all PFIs.

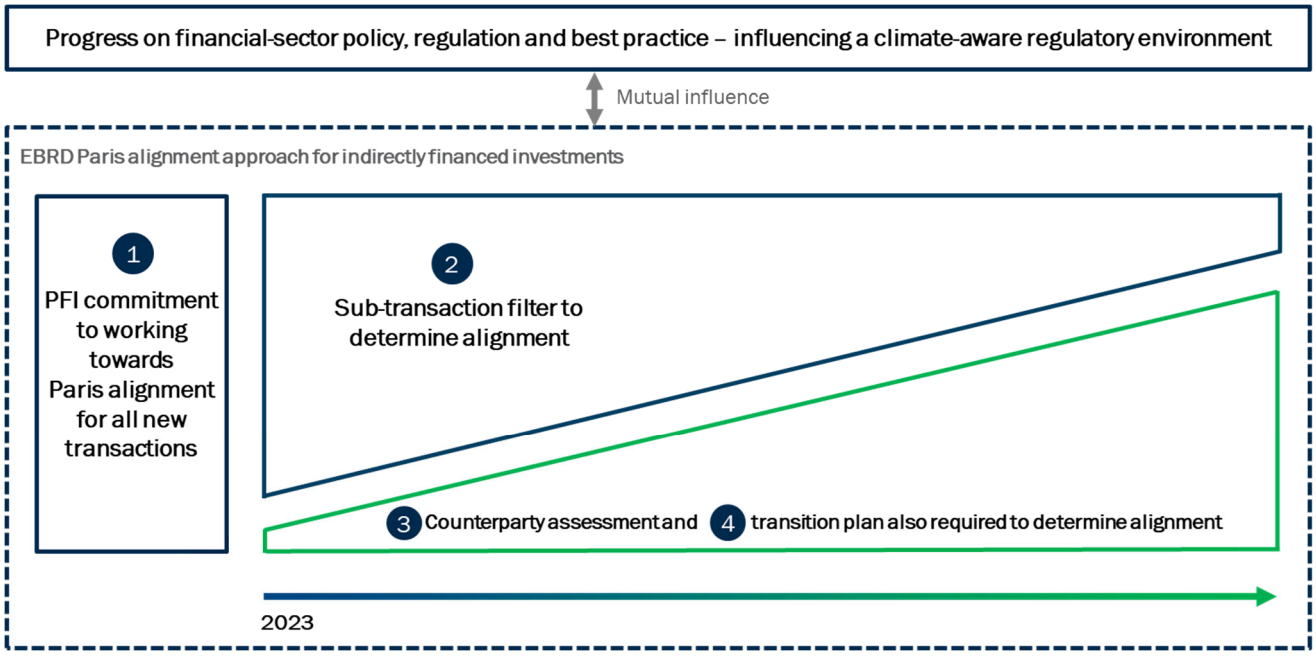
3.10. Each of the four pillars is explained in detail below.

Figure 3.1. Framework to determine the Paris alignment of indirectly financed EBRD investments



Note: Pillars 3 and 4 will be required in transactions for which there is no defined use of proceeds or where PFIs are exposed to material transition and physical climate risks. In time, the EBRD expects all of its PFIs to be captured by pillars 3 and 4 in its transactions.

Figure 3.2. Illustration of the methodological application to EBRD PFIs



Pillar 1: Counterparty commitment to the Paris Agreement

3.11. PFIs with which the EBRD enters into new financing agreements will be required to commit to aligning their financial flows with the Paris Agreement. In most cases, this commitment will be in the form of an affirmative covenant in transaction-related or other formal documentation that sets out the basis of engagement between the EBRD and the PFI. The PFI may also express such commitment in other forms (for example, its annual report, business strategy or other corporate communication).[53]

3.12. In making this commitment, the EBRD acknowledges that PFIs may not, at present, be subject to any regulatory requirements on climate or be implementing climate-related institutional practices in line with leading market conduct. However, it is a commitment, in the context of the pillars of the EBRD Paris alignment framework for indirect finance, to move towards business practices that are consistent with the goals of the Paris Agreement and to work with the EBRD, partner MDBs, a development institution or an impact investor to implement that commitment. This commitment will, where pillars 3 and 4 apply, reflect any commitments the PFI undertakes as part of its transition planning process.

3.13. In defining the PFI commitment and subsequent engagement, the counterparty must be defined. This is not always straightforward, as many PFIs with which the EBRD works are subsidiaries of a larger parent company. Where this distinction is a relevant consideration, the EBRD will focus, in applying its methodology, on the subsidiary level with which the EBRD has a financial relationship. However, it will, in some instances, need to coordinate with the parent company, particularly if engagement on climate-related issues is coordinated at that level.

Pillar 2: Sub-transaction filter

3.14. The EBRD uses a variety of financial instruments with PFIs. These fall into two categories:

a. Those where the intended nature of sub-transactions is known, through clearly defined criteria that specify the use of EBRD proceeds or a commitment by the PFI to allocate funds at least equivalent to EBRD's financing to specific purposes. These can include, for example, credit lines earmarked for loans to SMEs, Green Economy Financing Facilities (GEFFs) focused on financing investments with environmental benefits, or short-term financing to a PFI under the EBRD's Trade Facilitation Programme.

b. Those where the intended nature of sub-transactions is not known. In such cases, the EBRD may be providing financing that is general in nature and which can be used for any purpose, for example, equity investments or general-purpose liquidity.

3.15. For projects where the intended nature of sub-transactions is known, there are a number of factors, when taken together, that will allow the EBRD to determine whether sub-transactions are consistent with a pathway towards low-GHG and climate-resilient development. These factors are:

a. Fossil-fuel exclusions. All EBRD intermediated financing, regardless of financial instrument, is subject to the Bank's approach to fossil fuels, as set out in the EBRD's Energy Sector Strategy. The policy excludes PFI sub-transactions that are clearly not aligned with the mitigation goals of the Paris Agreement (such as coal power generation capacity), in addition to investments with a high risk of non-alignment (for example, upstream oil and gas).[54]

[53] In most cases, this will be included in the legal documentation between the EBRD and the PFI. However, for some financing types (such as capital market transactions), where such a form of commitment is not possible, equivalent approaches will be used to ensure a clear shared commitment to the long-term goal of Paris-aligned financial flows.

[54] See the EBRD Energy Sector Strategy 2024-28 (EBRD, 2023c). For projects where the intended nature of the sub-transactions are known, the sub-transactions will exclude the financing of: thermal coal mining or coal-fired electricity generation capacity, and oil and gas production, processing (including refining), transport (transmission and distribution), storage and utilisation to generate electricity (other than for own consumption).

b. The Bank's requirements around environmental safeguards. The EBRD Environmental and Social Policy sets out standards for all EBRD investments with financial intermediaries under Performance Requirement 9.[55] This is based on a "delegation principle", whereby the EBRD sets organisational capacity requirements to manage environmental and social risk, stakeholder engagement and accompanying reporting to the Bank. It also includes a list of sub-transaction types that would require escalation to the EBRD, some of which are associated with climate change considerations. It also includes a reference to the Environmental and Social Exclusion list.

c. The nature of the majority of sub-transactions with PFIs. In most cases, the financing provided to PFIs results in sub-transactions that: (i) are relatively small in monetary size and have tenors of less than five years; (ii) support climate change goals and do not result in significant GHG emissions (such as through green financing facilities); or (iii) target SMEs, resulting in sub-transaction portfolios that are granular and diversified in sectors that typically exhibit a low GHG footprint. In cases where these conditions are not met and a PFI does not exhibit the capacity to manage relevant climate-related risks, the PFI will be assessed under pillars 3 and 4.[56]

Pillar 3: Counterparty assessment to understand climate-related business practices

Phasing of pillars 3 and 4 at counterparty level

3.16. Material residual risks of financing sub-transactions being "not aligned" with the goals of the Paris Agreement will be addressed through the implementation of pillars 3 and 4. Taken together, these two pillars will place PFIs on a path which, over time, will lead to the adoption of climate-related institutional practices that align their financial flows with the Paris Agreement.

3.17. Accordingly, as of 1 January 2023, projects with PFIs where the intended nature of the sub-transactions are not known and where there is material risk of such financing being extended to activities not aligned with the objectives of the Paris Agreement require pillars 3 and 4 for alignment determination. Where sub-transaction types are not defined, a PFI is at greater risk of financing projects that are not aligned using EBRD finance. This includes general purpose liquidity and equity investments.[57]

3.18. Furthermore, the assessment of climate-related financial risks that the EBRD will undertake on its PFIs will inform those that will be prioritised for the implementation of pillars 3 and 4. This includes:

a. Where PFIs could be exposed to material carbon transition risk in their lending activities and there is no adequate framework to manage those risks within the PFI.[58] This is to facilitate prudence, as, in general, as noted, sub-transactions permitted under policy statements between

[55] See EBRD (2019a).

[56] Investments with such low-risk characteristics include (i) those dedicated to SMEs or retail customers, as well as (ii) those of €5 million or less, or where the cap on the sub-loan amount by the PFI is €5 million or less. In contrast, if or when sub-transactions are predominantly focused on capital expenditure for high-emitting or climate-vulnerable sectors and are not in line with the EBRD's Green Economy Transition criteria, the EBRD will conduct further due diligence focused on the PFI's ability to screen such investments to manage non-alignment risks.

[57] As set out in the EBRD Energy Sector Strategy, "for projects where the intended nature of the sub-transactions are not known, the financial intermediary will be required to refrain from financing new investments in coal mining, coal-fired electricity generation capacity, or upstream oil and gas exploration and development. Where the EBRD becomes a direct equity investor in a financial institution, an approach in line with the EBRD's Paris alignment methodology for intermediated finance [i.e. as set out under pillars 3 and 4 in this section] will be applied, including the preparation of a transition plan that will establish a strategy for fossil-fuel phase-out". See EBRD (2019a).

[58] This PFI prioritisation will be based on information collected as part of the EBRD's own process for climate risk management in its investments, which is a separate, but related, process to Paris alignment. All investments with PFIs will be assessed for climate-related financial risk. This assessment is based on available information relevant to the PFI. The assessment focuses on two main factors: (1) the PFI's portfolio and associated country- and sector-specific transition and physical climate risk profile; and (2) the PFI's capacity, systems and procedures for managing climate-related financial risks.

the EBRD and its PFIs would typically be determined as aligned with Paris mitigation goals under the EBRD's Paris alignment methodology for directly financed investments.

b. Where PFIs could be exposed to material physical climate risks in their lending activities and there is no adequate framework for managing those risks within the PFI. An assessment of sub-transactions with respect to the Paris Agreement's adaptation goals requires detailed locational and sectoral information that is typically not available at the time of EBRD financing. Therefore, applying the delegation principle, ensuring alignment depends primarily on the presence of high-quality operational processes with regard to adaptation, climate resilience and physical climate risk management in PFIs.[59]

3.19. The timing of pillar 3 and 4 assessment in other PFIs will be reviewed at the end of 2024. This phased approach gives the Bank the opportunity to adjust its approach based on what it learns as it scales up. It will also make clear to existing PFIs the EBRD's direction of travel when it comes to managing expectations and allowing PFIs to prepare. Furthermore, a phased approach will facilitate improved client impact after initial engagement with a smaller number of PFIs, a stocktaking of progress on the global harmonisation of disclosure standards and a consideration of the relative maturity of relevant policy and regulation.

Approach to counterparty assessment – pillar 3

3.20. To progress from considerations of EBRD financial flows to an assessment of the counterparty's financial flows more broadly, the Bank needs an understanding of the business practices of the counterparty in relation to climate change as well as a reference point to understand what a PFI should be implementing to credibly demonstrate alignment.

3.21. The global regulatory and market understanding of what Paris alignment means for a financial institution is still at an early stage; importantly there is no consensus on the characteristics of full alignment or the transition path to that point. Accordingly, the EBRD's practice will be flexible and adjust rapidly to both evolving best practice and the Bank's own experience of implementing this methodology. Existing initiatives nonetheless offer a starting point for defining advanced practice for how PFIs should incorporate climate change into their operations, and allow current PFI practices to be benchmarked.

3.22. In particular, the TCFD framework provides a core reference for assessing the current practices of EBRD clients, including PFIs. The TCFD framework is focused on the climate-related financial disclosures recommended for inclusion in public financial filings and specifies how institutions (including financial institutions) can effectively incorporate climate change considerations into their operations. In this respect, it is relevant for all of the EBRD's PFIs. It provides an effective tool for managing, assessing and disclosing PFI progress on strengthening their corporate practices to facilitate the alignment of their financial flows with the Paris Agreement. The TCFD framework also allows the Bank to employ a degree of consistency and objectivity in working with its PFIs in the context of rapidly evolving regulatory and market practices.

3.23. The EBRD will use a dedicated "Paris alignment matrix", structured around the thematic areas of the TCFD and incorporating guidance from leading market initiatives, to assess PFIs on their institutional progress towards Paris alignment. The purpose of the assessment is to determine a PFI's stage of institutional readiness to integrate climate change considerations into its operations and to identify support needs and priority actions. The matrix is shown in Table 3.1.

3.24. The baseline assessment will ask a series of questions, designed to reflect the way that organisations operate. The baseline assessment covers:

[59] As footnote above.

a. **governance** – the organisation's governance of climate-related risks and opportunities, including the role of the PFI's board and management in determining and managing climate issues
b. **strategy** – the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning
c. **risk management** – the processes used by the organisation to identify, assess and manage material climate-related risks and opportunities
d. **metrics and targets** – the metrics and targets used to assess and manage relevant climate-related risks and opportunities, including those that can be used to support the long-term goals of the Paris Agreement
e. **disclosure** – how the PFI reports on the impacts of their activities on the climate and the impacts of climate change on their activities.

3.25. The questions will be answered by the PFI in collaboration with EBRD as part of the Bank's wider due diligence process.[60] Depending on the results of the assessment, for each TCFD thematic area and for the PFI overall, one of the following "transition stages" will be assigned:

- **Early stage practice.** The PFI has incorporated climate change into its operations in a limited way or not at all and does not publicly disclose climate-related information.
- **Developing practice.** The PFI is undertaking some practices that incorporate climate change considerations into its operations, but some significant gaps remain.
- **Advanced practice.** The PFI has fully incorporated climate change considerations into its operations and implemented public disclosure where appropriate. While some gaps may remain, these are not significant.

3.26. For investment types set out in paragraph 3.17 (those subject to pillars 3 and 4), the counterparty assessment will be required before signing, and the main conclusions will be included in the project documentation submitted to the EBRD Board following standard EBRD processes. This assessment will subsequently inform the definition of specific areas to be addressed as part of a transition plan in pillar 4. The EBRD will disclose it is working with a PFI on a transition plan as part of its publicly available project summary document.

3.27. The PFI Paris alignment matrix used to assess PFIs will not be static and will evolve to reflect market and regulatory practices. The matrix will also be adapted to reflect the EBRD's implementation experience. The matrix and subsequent implications for the design of transition plans will be reviewed annually in the context of the methodology's regular review cycle, or more frequently, if necessary.

Pillar 4: Transition plan

3.28. Two actions can result from the counterparty assessment undertaken in pillar 3:

a. The PFI is determined to be at an "advanced practice" stage, in which case the EBRD will not request any further action from its counterparty and the project will be determined to be Paris aligned.[61] Confirmation that the PFI continues to achieve advanced practice will be assessed through standard EBRD PFI project monitoring on an annual basis.[62]

[60] In this context, all PFIs will work to provide the EBRD with a portfolio sector breakdown in line with industry reporting standards (consistent with recognised approaches such as the Global Industrial Classification Standards (GICS) or Nomenclature of Economic Activities (NACE)).

[61] The EBRD could still work with the PFI on climate-related matters, such as peer-to-peer learning.

[62] In some cases, demonstrable performance against regulatory standards that facilitate "advanced practice" will mean no action is required by a PFI.

b. The PFI is determined to be "early stage" or "developing practice" or to have only partially implemented elements of "advanced practice", in which case a "transition plan" will be agreed by the EBRD and the PFI in question.

3.29. Other than PFIs determined to be already at an advanced practice stage, the relevant PFI will be responsible for preparing its transition plan, potentially with support from the EBRD or other actors. The transition plan will be a roadmap for a fundamental reshaping of a PFI's financial flows and it will accordingly require deep-rooted institutional reform and commitment. Consequently, the transition plan will take time to prepare and to implement.

3.30. The transition plan will set out the steps through which the PFI will improve its business practices in relation to climate change, leading to Paris-aligned financial flows. These steps will be set out as clear, time-bound milestones for the PFI, with accompanying reporting to the EBRD as part of standard EBRD PFI project monitoring. The end goal of the transition plan will be the advanced practice stage and it will include time-bound milestones to achieve the next transition stage, beyond the PFI's existing practice.

3.31. The following process will be followed (summarised in Figure 3.3):

a. **Assessment and commitment**: Prior to signing and based on the pillar 3 counterparty assessment, the PFI will commit to preparing a transition plan within a defined period of project signing, typically two years.[63] The PFI and the EBRD will also agree at this stage the areas to be addressed in such a transition plan in order to confirm that there is a shared understanding of the outlined path the PFI will follow.

b. **Preparation of a transition plan**. The Bank expects the transition plan to be prepared in close cooperation with the EBRD, the PFI's regulatory authority and other MDBs and actors. The PFI will agree and approve at the highest applicable corporate level the transition plan within the agreed period.

c. **Implementation of a transition plan.** The transition plan will include clear short- and mid-term milestones with a timetable for delivery of those milestones. The PFI will implement the plan in accordance with that timetable.

d. **Disclosure**. The EBRD will operate a presumption that the PFI will disclose the contents and implementation of each transition plan, except where this would cause harm to the PFI's commercial interests that would outweigh the public interest in disclosure. At a minimum, the EBRD will expect public disclosure of: (1) a clear commitment to adopt and implement a transition plan; (2) core actions the organisation is taking to realise this commitment; and (3) any defined targets that underpin the transition plan's ambition (as well as progress against those targets). The EBRD expects this disclosure typically within one year of the transition plan being approved and regularly thereafter, in line with the entity's annual reporting cycle.

e. **Annual monitoring**. Progress on the transition plan will be monitored annually and will compare current practices, the PFI's baseline and the milestones set out in the transition plan.

3.32. The outcome of the EBRD's annual monitoring of transition plan implementation will result in one of three outcomes:

a. A determination of continued alignment with the EBRD Paris alignment framework (in other words, that the transition plan is being implemented as planned).

b. A revised set of actions and deadlines to improve practices further, with any specific support to be provided by the EBRD (in other words, a revised transition plan).

c. A determination of non-alignment (progress milestones are not being met in a satisfactory way and a PFI does not demonstrate the commitment or willingness to work with the EBRD

[63] In many cases, the EBRD will be working directly with the PFI to prepare its transition plan. As part of the annual monitoring of EBRD projects, where a transition plan is still under development, progress will be monitored.

to achieve them). If the PFI fails to satisfactorily implement the transition plan, the EBRD will agree remedial measures to be undertaken to address the non-alignment. This may include adjustments to the schedule of the transition plan. In the event that the PFI fails to implement the revised transition plan, the Bank will take appropriate action – including exercising rights and remedies contained in its financing agreements with the PFI or ceasing further engagement with that PFI.

3.33. While the actions required of PFIs will vary, the outline of what constitutes a credible transition plan are beginning to emerge and have been incorporated into the definition of advanced practice in the Paris alignment matrix. Based on a review of existing transition plan guidance, the EBRD has synthesised a set of three guiding principles it will use for transition plans agreed with its PFIs:

a. **Clear commitment.** The PFI is expected to commit to supporting the implementation of the Paris Agreement. In part, this is captured by the commitment set out in pillar 1. However, this commitment is strengthened in a transition plan, with clear acknowledgment of the level of ambition it seeks to achieve (namely, advanced practice) and concrete and time-bound actions to move towards that end goal.

b. **Take action now.** As part of the transition plan, linked to its overall aspirations, actions should be defined in the short, medium and long term. In relation to the TCFD thematic areas, the EBRD will pay particular attention to the "metrics and targets"[64] and "strategy" commitments, ensuring that PFIs are establishing ever more specific and time-bound institutional targets consistent with the goals of the Paris Agreement and have a clear route to implementing them.

c. **Disclosure and transparent reporting on progress.** Public disclosure remains at the centre of credible transition plan implementation. The EBRD will work with the PFI to ensure its disclosures are in line with leading industry standards.

3.34. When developing the transition plan, requirements must be tailored to context. Thus, the milestones agreed by the EBRD and the PFI will be specific to that PFI; not all intermediaries will be expected to advance at the same pace. However, as stated above, all PFIs that undergo the transition planning process will be expected to make a clear commitment to Paris alignment, undertake actions to work towards "advanced practice" and disclose accordingly. In addition, the EBRD expects:

a. compliance with any relevant legislation (for example, the EU Sustainable Finance Disclosure Regulation) and the EBRD's existing policies and procedures

b. that alongside preparing the transition plan, PFIs will achieve the requirements of early-stage practice over the same timeframe as transition plan preparation (achieving this being important to facilitate effective implementation of a transition plan)

c. at the time of agreeing its transition plan with the EBRD, where such a policy is not already in place, the PFI will thereafter not provide any new financing for capital expenditures related to new capacity of thermal coal (this includes investment in electricity generation infrastructure and mining, covering both new and existing assets).

3.35. The EBRD acknowledges the importance that transition plan design encapsulate considerations related to both mitigation and adaptation goals.

a. As regards mitigation goals, transition plans are expected to address how the PFI will concretely align its financial flows with the Paris agreement, including a clear approach to

[64] The EBRD acknowledges the nascent stage of guidance and experience in implementing climate-related targets in financial institutions. The EBRD will clarify specific expectations on metrics and targets in a future update to its alignment framework.

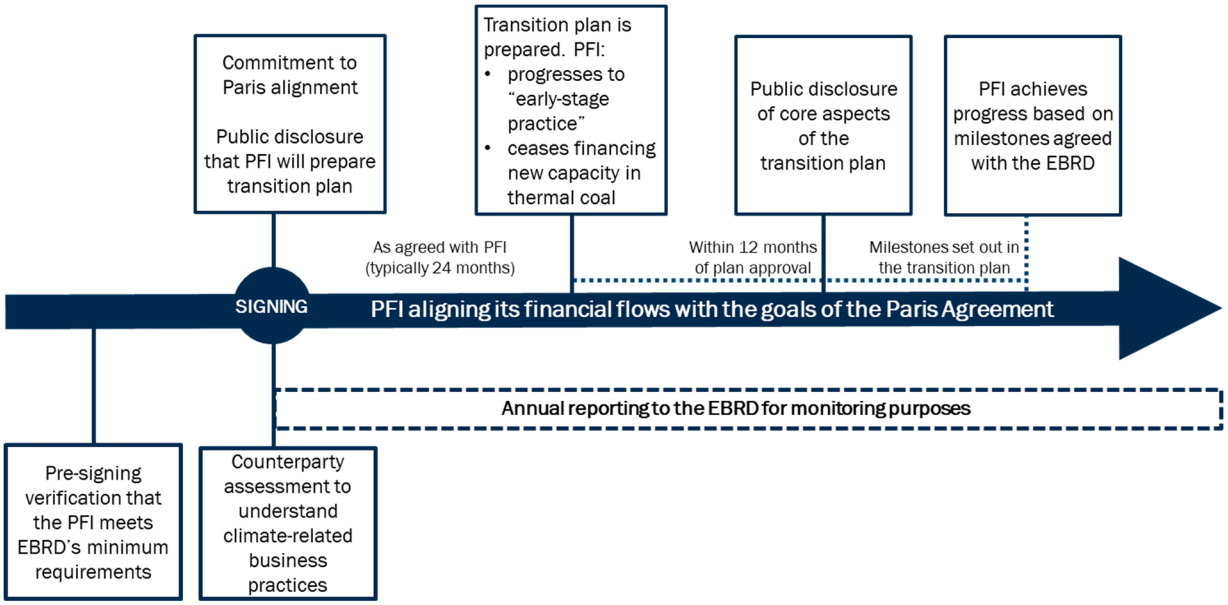
reducing its support for fossil fuels over time and scaling up finance for low-GHG development.[65]

b. As regards adaptation goals, noting the more nascent guidance for financial institutions, the EBRD expects transition plans to work towards measurable targets, financial product offerings that target sub-transactions to build climate resilience, and actions to manage physical climate risks (including identifying material physical climate risks and understanding the potential impact on financial performance).

3.36. In some instances, the PFI will require dedicated support to design the transition plan and implement its milestones. The EBRD will be able to provide such support, including through its Corporate Climate Governance Facility, which supports EBRD clients in improving their corporate practices in line with best practice.

3.37. Where relevant, the EBRD will structure support in coordination with other MDBs and development finance institutions and provide mutual recognition of client engagement to support Paris alignment. In some cases, PFIs will already be cooperating with other MDBs and development institutions. If a PFI cooperates with another MDB, development finance institution or impact investor and has agreed a similar transition plan, this will be evaluated. In the absence of material divergence from the EBRD's approach, the Bank will regard such a plan as fulfilling its requirements for a transition plan. The EBRD will still expect a PFI commitment to implement that plan and the requirements relating to disclosure and the consequences of non-implementation will apply, as set out above.

Figure 3.3. Illustration of the application of pillars 3 and 4 to a PFI



[65] This may include the use of international carbon markets and carbon credits. While guidance is emerging on how to use these instruments credibly, they can play a useful role in offsetting a financial institution's GHG impact, especially where these impacts are "hard to abate".

Table 3.1. EBRD PFI Paris alignment matrix

TCFD thematic area		The EBRD's minimum requirements at signing	PFI Paris alignment transition stage			Reference
			Early stage practice	Level of ambition to be addressed in a transition plan		
				Developing practice	Advanced practice	
Governance Board and management roles and responsibilities for climate change		The PFI has the corporate governance practices needed to support the climate ambition or commits to undertake the necessary steps to adopt such practices within an agreed timeframe	The PFI's board receives some climate-related information. Responsibilities for climate change are defined for the PFI's senior management.	Board members have formally assigned responsibilities on climate change and receive relevant climate-related information at least once per quarter Roles and responsibilities for climate change matters are well-defined among management, and cascade through the PFI's organisational structure. Roles and responsibilities for climate change matters are supported by training.	The Board oversees climate change activities, approves strategic decisions and the climate strategy, and monitors progress against climate targets. Executive remuneration and incentives are aligned with the PFI's climate ambition Roles and responsibilities for climate change matters are supported by a regular and structured training programme.	TCFD (2021b) – p. 42 GFANZ (2022) – p. 65-73 TPT (2022) – p. 21 CDP (2022) – p. 13 IA (2021) – p .7
Strategy	**Business strategy** A strategy to meet climate change goals, supported by plans, policies and financial products	The PFI makes a commitment to the EBRD to work towards aligning its financial flows with the goals of the Paris Agreement. The PFI complies in its financial flows from the EBRD with (i) the EBRD's Environmental and Social Policy (including exclusions list) and (ii) the EBRD's approach to fossil fuels set out in its Energy Sector Strategy.	The PFI offers at least one climate change-related financial product.	The PFI has a stated climate ambition to support aligning financial flows with the Paris Agreement, with defined actions to meet this ambition as part of its corporate strategy. The PFI is developing a plan for a managed phase-out of investments in high-emitting assets. The PFI has practices and processes in place to support positive climate change outcomes. The PFI offers a selection of climate change-related financial products.	The PFI has a stated climate ambition and a well-formulated strategy or plan (covering both mitigation and adaptation and existing and new products and services), grounded in aligning its flows with the goals of the Paris Agreement and reflecting the context of its financing activities (for example, country circumstances). The strategy or plan outlines the concrete steps needed to meet the stated ambition, including financing climate solutions, enabling clients to align to a 1.5°C pathway and supporting clients that are already aligned. The PFI has a plan for a managed phase-out of all high-emitting assets in a time frame that is consistent with Paris Agreement goals. The strategy or plan, underpinned by a scenario analysis, explains how climate considerations are reflected in decision-making tools and processes, how the PFI manages climate-related risks and creates opportunities to transition its client base to be more resilient to these risks, and how it incorporates just transition considerations. Climate ambitions are supported by a range of relevant policies (for example, on financing fossil fuels or other high-impact activities). Climate ambitions are reflected in the PFI's climate-related financial product offering.	TCFD (2021b) – p. 42 GFANZ (2022) – p. 21-41 TPT (2022) – p. 17-18 CDP (2022) – p. 13-14 IA (2021) – p. 3
	External engagement A strategy to meet climate change goals through engagement with clients and other groups	The PFI is aware of its portfolio exposure to clients in different sectors and provides this information to the EBRD.	The PFI is piloting engagement with clients on climate change.	The PFI has engaged with some clients on climate change. The PFI is part of national/international climate-related initiatives, industry groups and advocacy efforts (with governments and civil society) which support Paris Agreement goals.	The PFI engages with clients on climate change and has a track record of successfully supporting counterparties. The PFI is actively involved in (or leads) national/international climate-related initiatives, industry groups or advocacy efforts (with governments and civil society), which actively support Paris Agreement goals.	GFANZ (2022) – p. 42, 53 TPT (2022) – p. 18, 19 CDP (2022) – p. 14 IA (2021) – p. 4
Risk management Identification, assessment and management of climate-related financial risk		Physical and transition climate-related financial risks in the PFI's portfolio are assessed by the EBRD based on information provided by the PFI.	The PFI is developing capacity to assess and manage its exposures to high-emitting assets. Climate transition risks in the PFI's portfolio are identified and described qualitatively. Climate-related physical risks are considered when some investments are assessed.	Climate risks in the PFI's portfolio are identified and supported by quantitative analyses. Material climate risks (physical and transition) are considered and addressed when investments are structured.	Climate risks are identified, described and assessed for materiality in a quantitative and qualitative way. Climate risks (physical and transition) are integrated into the risk management framework and business and financial planning, with decisions underpinned by scenario analysis to manage uncertainty.	TCFD (2021b) – p. 42 CDP (2022) – p. 13 IA (2021) – p. 3
Metrics and targets	**Metrics** Climate-related data and variables which are used to set targets and measure impact	The PFI tracks climate-related metrics as part of EBRD-intermediated climate finance transactions.	The PFI collects data on internal climate change metrics (for example, as energy or CO_2 savings generated by a given project).	The PFI collects data on Scope 1 and 2 emissions (and some Scope 3 emissions). The PFI reports on some climate change metrics, including any related climate financing.	The PFI has a GHG emissions inventory, which includes the full impacts of its financed emissions, compiled in line with market best practice. The PFI uses data on emissions or emissions intensity as inputs in measuring its portfolio alignment. The PFI also collects data on any relevant adaptation metrics (for example, share of finance for adaptation).	TCFD (2021b) – p. 42 GFANZ (2022) – p. 54-64 TPT (2022) – p. 16 CDP (2022) – p. 14 IA (2021) – p. 6
	Targets Expression of the climate ambition of the PFI over the short and long term	The PFI commits to achieving "early-stage" practices across all pillars, typically within two years of signing, if not already achieved.	The PFI has targets relating to some internal climate change metrics.	The PFI has announced a climate change target encapsulating climate finance and/or GHG emissions.	The PFI set a credible climate mitigation objective (underpinned by short, medium and long-term targets), in line with industry best practice to meet the goals of the Paris Agreement. The PFI also sets an adaptation objective aligned with industry best practice. Objectives reflect relevant industry best practice and include a short-term target related to its strategy on fossil-fuel financing.	TCFD (2021b) – p. 42 GFANZ (2022) – p. 54-64 TPT (2022) – p. 15-16 CDP (2022) – p. 13
Disclosure Information about the PFI's climate change-related matters available to the EBRD and publicly		On an annual basis, as part of the monitoring of intermediated climate finance transactions, the PFI reports to the EBRD (i) its Environmental and Social Report for Financial Institutions; and (ii) progress on transition planning (when relevant). Information about the PFI's transaction with the EBRD is available on the EBRD website and (when applicable) the PFI's communication channels.	The PFI discloses information on main climate-related developments.	The PFI discloses some climate-related information in line with leading industry disclosure standards (for example, TCFD). This disclosure includes some information on the PFI's climate ambition and on core elements of its transition plan.	Climate-related information, including all above listed aspects related to governance, strategy, risk management, and metrics and targets, is reviewed and disclosed externally on a regular basis, in line with leading industry disclosure standards, with transparency on goals and performance. Climate reporting is reviewed at a set frequency, and verified or assured by a third party. Published data are accompanied by notes on underlying methodology, assumptions and uncertainties.	TCFD (2021b) – p. 42 GFANZ (2022) –p. 54-64 TPT (2022) – p. 16,21 CDP (2022) – p.14 IA (2021) - p.6

4

Determining the Paris alignment of other financial instruments used by the EBRD

Considerations in determining the alignment of other financial instruments used by the EBRD

4.1. The determination of the majority of EBRD investments are covered by the Paris alignment determination approaches in section 2 on directly financed investments or in section 3 on indirectly financed investments through EBRD's PFIs.[66]

4.2. For a minority of investment types, however, Paris alignment determination is not possible using the approaches set out in sections 2 and 3. These investment types include:

a. directly financed investments that are not related to specific capital expenditures or clearly identified and ring-fenced economic activities

b. where the use of proceeds or activities to be financed cannot be readily identified at the time that an investment project is being approved

c. where the financial flow is linked to multiple investment activities, where individual assessment would be impractical

d. where the EBRD takes an equity stake in a corporate counterparty

e. in debt or equity funds where the EBRD has direct exposure to underlying sub-transactions

f. donor financing managed or facilitated by the EBRD to support its investments (for example, grants or concessional financing for projects and funds used to fund technical cooperation activities).

4.3. Where the approaches set out in sections 2 and 3 for direct and indirect finance are not applicable, Paris alignment determination will be based on the underlying principles of these approaches. The rationale is that the investments exist on a spectrum ranging from finance that is not tied to any specific economic activities or assets (so the principles of indirect finance are applicable) to investments that are contractually tied to specific economic activities or assets (so the principles of direct finance are applicable).

4.4. While any Paris alignment determination can draw on the directly and indirectly financed principles, the specificities of a given financing type may require a tailored approach to consider practical factors. These factors may include the time available to the EBRD to conduct its alignment determination (particularly relevant for fast-moving capital-market transactions), the information available at the point of project approval and the type of financial relationship the EBRD has with its counterparty.

[66] On some occasions, an EBRD investment could comprise a number of different components, simultaneously spanning both direct and indirect investments. In such cases, as far as is practicable, these different components will be assessed individually.

Assessment approach

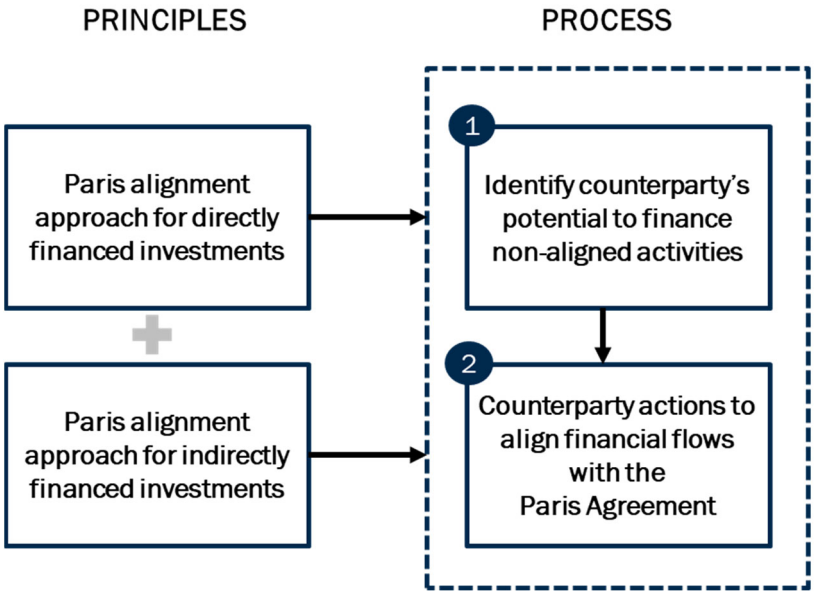
4.5. In general, where EBRD financing is not tied to specific capital expenditures, economic activities or assets – or their assessment is not possible – Paris alignment determination will be based on an assessment of the activities of the counterparty.[67] The assessment will follow a two-step process:

Step 1: Identify the counterparty's potential to finance not-aligned activities. This step will draw on the principles of the direct finance approach to identify the likelihood that the counterparty will carry out economic activities that are not aligned with the Paris Agreement. If the counterparty is predominantly engaged in economic activities that present a low risk of misalignment, the related investment will be determined as aligned. Otherwise additional assessment to determine alignment will be required under step 2.

Step 2: Counterparty actions to align financial flows with the Paris Agreement. This step draws on pillars 1, 3 and 4 of the indirect finance approach. Where the counterparty has in place actions or measures to ensure its activities are aligned with the goals of the Paris Agreement, then the EBRD will determine the related investment aligned. Otherwise the counterparty will be required to commit to actions to ensure it is credibly aligning its activities with the goals of the Paris Agreement. Progress of the counterparty's actions will be assessed against time-bound milestones.

4.6. These two steps are explained in detail below (and summarised in Figure 4.1).

Figure 4.1. Framework to determine the Paris alignment of other financial instruments



[67] In June 2023, a set of Joint MDB Principles for the Paris Alignment of General Corporate Purpose Financing was published and has informed this section. See MDBs (2023a).

Step 1: Identify the counterparty's potential to finance not-aligned activities

4.7. This step will identify whether a counterparty could be engaged in activities that are potentially not aligned with the goals of the Paris Agreement. If the counterparty does not have activities that are high-emitting or climate vulnerable, then the related investment project will be determined to be aligned. Otherwise, further assessment as part of step 2 will be required to determine alignment. The approach is summarised in Figure 4.2.

4.8. Specifically regarding alignment with the Paris mitigation goals:

a. Where the counterparty undertakes any activities that feature on the joint-MDB "not aligned" project list (see Annex 2) or are inconsistent with the relevant NDC, further action will be required under step 2 to ensure alignment.

b. In cases where the criteria in 4.8(a) are not applicable and where 90 per cent or more of a counterparty's annual turnover is derived from activities on the joint-MDB "aligned" project list or fulfil the EU Taxonomy substantial contribution benchmarks for mitigation, the related investment project will be determined to be aligned.[68] If this is not the case, a further check on the activities of the counterparty will be required to determine whether the counterparty is "high emitting".

c. A counterparty will be subject to further assessment to determine alignment as part of step 2 where it is defined as high emitting. Other counterparties will be determined to be aligned. "High emitting" is defined as follows:

i. where 20 per cent or more of a counterparty's annual turnover is derived from fossil fuel-dependent activities, fossil fuel-based industries, energy-intensive industries or high-emission industrial processing, aviation, shipping, animal products, or sectors or activities that may directly lead to an expansion of or promote expansion into areas of high carbon stocks or high biodiversity (see Annex 5), or

ii. having activities that result in more than 100,000 tonnes of CO_2e emissions per year in absolute terms.

4.9. Specifically regarding alignment with the Paris adaptation goals:

a. A counterparty is climate vulnerable if it could be exposed to material physical climate risks related to its activities. Where such risks are present, these investments will be subject to further assessment to determine alignment as part of step 2. The determination of vulnerability will draw on the process for climate risk as set out in section 2, but for these financial instruments, the assessment will be focused on the specific assets of the counterparty. Where it is impractical to assess individual assets due to significant diversification of a counterparty's locations, an assessment will be made of the vulnerability of its business more broadly.[69]

b. A counterparty will also be considered climate vulnerable if, within the broader climate resilience context of its activities and assets, it demonstrates material inconsistencies with national climate adaptation policies or could potentially exacerbate systemic climate risks through its activities. Counterparties with greater potential to result in a wider systemic impact include (but are not limited to): (1) those that have significant water consumption (or that decrease water availability significantly) in areas of high water stress; (2) those that alter existing rivers and watercourses in areas prone to flooding or drought; or (3) those

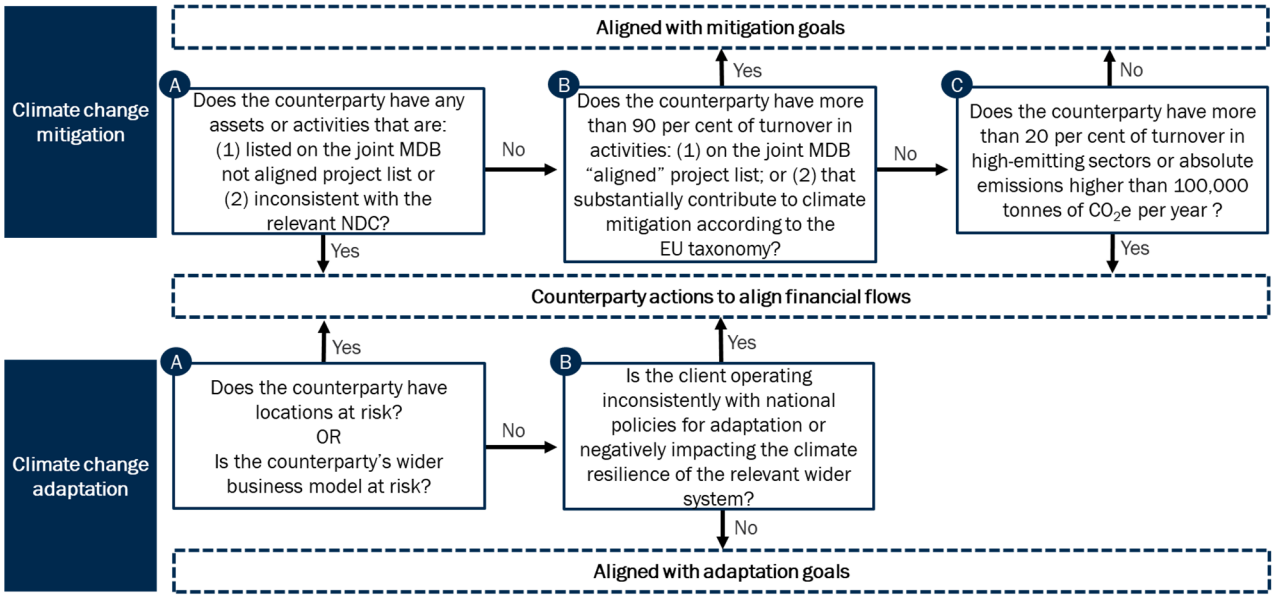
[68] The activities will be assessed using the tools in the general screening approach for directly financed investments. Turnover will be based on the most recent representative year available.

[69] Where the counterparty's overall business model is to be assessed, this will be linked to a country- and sector-specific physical climate risk profile associated with the counterparty's activities.

with significant land-use change in areas with water stress, flooding, drought or erosion concerns.[70]

c. A transaction whose counterparty is not climate vulnerable and, therefore, is not exposed to material physical climate risks, will be determined to be aligned with the Paris adaptation goals.[71]

Figure 4.2. Approach to identifying a counterparty's potential to finance not-aligned activities



Step 2: Counterparty actions to align financial flows

4.10. In a transaction involving a high-emitting or climate-vulnerable counterparty, they must be committed to working towards aligning their activities with the goals of the Paris Agreement. This commitment and subsequent actions will be included in transaction-related documentation, broadly consistent with pillar 1 of the framework for indirectly financed investments.

Approach to counterparties involved in activities that are not aligned

4.11. As is the case for directly and indirectly financed investments, adequate safeguards are required to restrict the financing of activities that are not aligned. This is most obviously the case where the counterparty has assets or activities that are listed on the joint MDB "not aligned" project list for mitigation or are inconsistent with the relevant country's NDC.

4.12. In such cases, to ensure the Bank is consistent with a pathway towards low-GHG and climate-resilient development, for the transaction to be determined as aligned, the counterparty will be required to:

a. commit to no new investments in these activities and

b. have a credible plan in place to phase out these activities on a timeline consistent with the goals of the Paris Agreement (for example, in the case of coal power generation capacity assets, set out a phase-out schedule in line with a LCP).[72]

[70] The threshold for significant land-use change, significant water consumption and alteration of existing rivers/watercourses aligns with the relevant sections of the EBRD's Environmental and Social Policy (EBRD, 2019a).

[71] If the transaction can be tied to economic activities not linked to physical capital assets and are short term in nature, it will be determined to be aligned with adaptation goals. For example, this includes transactions for the purchase of commodities or raw materials, provided that these will be held as inventories in the short term from the time of purchase.

[72] This will be guided by similar sources to those set out in section 2 (see Box 2.1 and footnote 21) and section 3 (see Table 3.1).

4.13. These commitments would be agreed at project signing and be implemented thereafter (and be reflected in a commitment as part of transaction-related documentation in a way consistent with pillar 1 of the framework for indirectly financed investments). The overall process for implementation will broadly follow the high-level process set out in paragraph 3.31 (assessment and commitment, preparation of a plan, implementation, disclosure and annual monitoring).

Actions required for investments involving high-emitting counterparties

4.14. A counterparty defined as high emitting will need to ensure its underlying business practices are aligned with the Paris Agreement. In some cases, the counterparty will already have in place an adequate corporate-level LCP or alignment strategy. In such cases, additional commitments and actions will not be required to determine that the counterparty is aligned with the goals of the Paris Agreement. If not present, these will need to be developed.

4.15. Where such actions are not in place, a counterparty identified as high-emitting will require one of the following actions to be determined as aligned with the Paris Agreement mitigation goals:

a. A commitment to design and implement a Paris-aligned LCP for emissions-intensive assets or activities that materially contribute to a counterparty's overall GHG emissions. In line with the process set out in section 3 for transition plans related to indirectly financed investments, this pathway should set metrics and targets for relevant asset- or activity-level GHG emissions, in line with Paris mitigation goals (appropriately reflecting country circumstances and linked to common but differentiated responsibilities).

b. A commitment to design and implement a Paris-aligned strategy for the counterparty's GHG emissions at the level of the counterparty as a whole (and therefore broader than a focus on specific assets or activities, as set out in (a)). As with (a), this strategy should reflect the principles for LCPs set out in section 2, including relevant sector-specific guidance.[73]

c. A commitment to fully integrate climate change considerations into corporate practices (which will incorporate elements of (a) and (b)). In line with the approach set out in section 3 for PFIs, the EBRD will apply an adapted version of the "PFI Paris alignment matrix" as set out in Table 3.1, adapted for non-financial corporates. This will be used to assess the institutional readiness of the counterparty to integrate climate change considerations into its operations and to identify support needs and priority actions for improvement. This will focus on institutional practices, in line with the thematic areas of the TCFD principles and the ambition of disclosed metrics and targets. This will inevitably also capture the approaches in (a) and (b) focused on the alignment of specific activities.

4.16. All three required actions incorporate considerations of credible target setting. There is an emerging set of reference works to guide setting such targets. While guidance will evolve over time, the EBRD will use existing leading practice and guidelines (for example, the Science-Based Targets initiative, the Transition Pathway Initiative and Climate Action 100+). Leading guidance currently highlights the importance of (a) setting a base year for targets; (b) calculating GHG emissions linked to a clear boundary; (c) setting targets in the short, medium and long term; (d) prioritising specific measures and investments the counterparty will undertake to reduce GHG emissions; and (e) excluding the use of avoided emissions and carbon credits as a substitute for reductions.[74]

[73] In the case of sustainability-linked instruments, where key performance indicators and/or sustainability performance targets meet the equivalent criteria for decarbonisation, these instruments will be determined as aligned for mitigation goals.

[74] The boundary for targets should cover all material sources of Scope 1 and Scope 2 emissions at a minimum. Where possible material sources of emissions in the value chain should be included, particularly where this would be required by best practice in the sector.

Actions required for investments involving climate vulnerable counterparties

4.17. A counterparty identified as climate vulnerable will require one of the following to be determined as aligned with Paris adaptation goals:

a. An adequate process to manage potential physical climate-related risks. This will be assessed based on the counterparty's capacity, systems and procedures to manage such risks. These processes should be consistent with leading market practices.[75]

b. Full integration of climate change considerations into a counterparty's corporate practices per paragraph 4.15(c).

4.18. Where additional post-signing actions are required by the counterparty, implementation will broadly follow the high-level steps set out in paragraph 3.31 (assessment and commitment, preparation of a plan, implementation, disclosure and annual monitoring). The EBRD acknowledges that counterparties may not, at present, be implementing business practices and/or have decarbonisation plans in line with the goals of the Paris Agreement. However, as part of the EBRD transaction, they will commit to move towards business practices that are consistent with these goals and to work with the EBRD and any relevant partner MDBs, development institutions or impact investors to implement that commitment

4.19. In some cases, the short tenor of the transaction may limit the EBRD's ability to agree specific actions with the counterparty. No action will, therefore, be required where: (i) the tenor of the transaction is shorter than the timeline required for the development and agreement of specific actions (normally less than 24 months); and (ii) the EBRD does not plan to enter into continued future transactions with the counterparty.[76]

4.20. Some EBRD clients require dedicated support to design these elements and then implement the milestones. The EBRD will be able to provide support for relevant non-financial corporates, including through the EBRD's Corporate Climate Governance Facility, which supports EBRD clients in improving their corporate practices in line with best practice.

Additional considerations for specific financing types

4.21. Against the general process set out above and in preceding sections, there are specific considerations that the EBRD will apply for certain financing types. To account for certain features of these transactions and financing types, additional factors will be included for alignment determination.

Corporate equity

4.22. In these transactions, the EBRD acquires an equity stake in the form of shares in a counterparty. These projects may or may not have specific activities or investments that the proceeds of EBRD investment will finance. Where the use of proceeds will be used to finance specific capital expenditures, or where the equity relies on the implementation of well-defined capital expenditure, they will be assessed in line with the principles for directly financed EBRD investments to ensure that risks of financing activities that are not aligned are addressed. As the

[75] Where a counterparty is determined to be vulnerable to physical climate risk due to material inconsistencies of its activities with climate adaptation policies or impacts of its activities on systemic resilience, it will be required to have a plan to rectify inconsistencies and mitigate impacts.

[76] Where an investment is part of a series of equivalent transactions, a refresh of an existing transaction or a repeat of an initial transaction with the counterparty, then some action could be required, including a conditional commitment by the client to develop counterparty actions to align financial flows if they enter into new transactions with the EBRD within 24 months of project signing.

EBRD will be taking a long-term stake in the counterparty, the following additional considerations will be applied for alignment determination:[77]

a. All corporate equity transactions will require a counterparty assessment consistent with steps 1 and 2, as outlined above, even if the specific capital expenditure or economic activities funded by the Bank's equity investment or supported by the underlying equity case are determined to be aligned.

b. The Bank will seek to promote discussions of relevant Paris alignment issues and related areas of potential engagement and support at the level of the investee company's board (directly and via the EBRD's Nominee Directors). This includes, for example, putting forward proposed discussion items for board meeting agendas. The Bank will also provide Nominee Directors with relevant support to foster Paris alignment at board level.

c. Where the development and delivery of a transition plan are required, progress on the implementation will be monitored as part of the Bank's regular portfolio monitoring cycle and will inform the Bank's portfolio management process and decisions. Per the process for PFIs (set out in paragraph 3.31), in the case of equity holdings, one of three outcomes will result: (i) a determination of continued alignment; (b) a revised set of actions for continued determination of alignment; or (c) a determination of non-alignment (that is, progress milestones are not being met in a satisfactory way).[78]

4.23. For existing equity holdings, recognising the historical nature of transactions that were not structured in accordance with this framework, the EBRD will to the extent possible:

a. exercise its shareholder and related voting rights in support of Paris alignment objectives

b. engage with its holdings, prioritising those in high-emitting sectors, to offer technical support to develop a "transition plan", subject to available resources and level of engagement

c. engage with boards of investee companies directly or via the EBRD's Nominee Directors to help advance the discussion of and engagement on climate change issues

d. monitor relevant commitments and actions taken by investee companies as a result of EBRD engagement.

Acquisitions and refinancing

4.24. For investments involving refinancing and acquisition transactions, in general, the approach to directly financed investments involving identified capital expenditure or economic activities in section 2 will apply.[79]

4.25. Where acquisition finance will be used to support the purchase of a separate corporate entity, or an assessment in line with the direct finance approach is not possible, then the steps set out in this section will apply to the company to be acquired or refinanced.

Funds

4.26. The Bank's fund investments (either debt or equity) entail the provision by the EBRD of capital into an overall investment pool, to be managed by a financial intermediary (fund manager) and

[77] This includes instruments with equity features, such as convertible debt instruments and mergers and acquisitions financed with equity proceeds. For convertible instruments, only those activities on the "not aligned" project list in Annex 2 will need to be addressed through a pre-signing commitment to phase out such activities. Other areas that present a possibility of EBRD financing activities that are not aligned will require a commitment in principle to act in line with the EBRD Paris alignment methodological framework, with the implementation of actions at counterparty level only being required following the conversion to equity.

[78] This will result in remedial measures to address non-alignment. Where actions are failed to be implemented the Bank will take action that it deems appropriate – including potentially resulting in disengagement.

[79] The relevant assets will already be in existence, so some elements of the approach to directly financed investments with specific capital expenditure may not apply. Where it is not possible to apply specific elements (such as carbon lock-in tests or economic assessment) this will be set out in project documentation with an accompanying rationale. In addition, for adaptation assets already in operation that are deemed materially exposed to physical climate risk, there may be limited scope to implement physical measures to reduce vulnerability and exposure to a material physical climate risk. In such cases, the EBRD will prioritise ensuring adequate management and response measures to mitigate impacts.

invested over time on a delegated basis, in accordance with a set of investment guidelines. The final recipients of the funds in which the Bank is investing are typically undetermined at the point of signing.

4.27. For different funds, providing that details of specific capital expenditures or assets are not known, the investment will be assessed in line with the four-pillar approach for indirectly financed investments. In general, the EBRD will complete an assessment of the fund's investment strategy based on target sectors, as well as the indicative investment pipeline, if available. Where the likelihood of investment in activities that are not aligned is low or the investment guidelines sufficiently incorporate the principles of the EBRD's Paris alignment methodological framework, the transaction will be determined to be aligned. In cases where there is a greater potential for investment in activities that are not aligned, the fund will be prioritised for pillar 3 assessment and pillar 4.[80]

Donor financing managed or facilitated by the EBRD to support its investments

4.28. Donor governments and partners contribute to the EBRD's work by providing funds that are used to co-finance investments or fund activities that support investment preparation or implementation. The use of donor funds will be assessed in line with the equivalent assessment approach that would otherwise be followed based on the type of financial product or transaction being financed.

4.29. Technical cooperation (TC) projects are either directly related to one specific EBRD investment or one specific investment framework (transactional TCs) or indirectly related or unrelated to an investment or investment framework (non-transactional TCs), be they standalone interventions, programmes or frameworks covering many assignments or interventions:

a. Transactional TCs will be determined to be aligned where the underlying transaction is also determined to be aligned or where the TC's objectives will enable the alignment of the underlying transaction. In cases where details of the underlying transaction are not sufficient, the EBRD will follow the approach for non-transactional TCs.

b. Non-transactional TCs will be screened for whether they support economic activities that (1) feature on the joint MDB "not aligned" project list or (2) are inconsistent with a country's climate commitments, as they are explicitly ruled out by the relevant NDC or other policy documents. In this case, the TC will be determined to be "not aligned", as it will support outcomes that are inconsistent with the goals of the Paris Agreement. In all other cases, the TC will be determined to be aligned.

c. Donor-funded co-investment grants will be determined to be aligned where the underlying transaction is also determined to be aligned or where the grant's objectives will support the alignment of the underlying transaction.

[80] In most cases, venture capital funds and generalist private equity funds that are focused on investments in small and medium-sized business are expected to have a low possibility of investment in activities that are not aligned and to be determined as aligned based on the rationale of pillar 2 of the approach for indirectly financed investments.

Supplementary material

Annex 1. Links between the EBRD's Paris alignment methodology and other processes

A1.1. The determination of a project's Paris alignment is linked to several other Bank processes, as explained below. Paris alignment determination will take place before a project is signed, with subsequent assessments taking place as part of EBRD project monitoring.

A1.2. EBRD processes linked to a project's Paris alignment, taking place before project signing, include **GET finance attribution**. This is the EBRD's measure of "green" finance.[81] Projects or project components that qualify for GET must have measurable environmental benefits. The three main categories of environmental benefits are: (1) climate change mitigation (reduction of GHG emissions); (2) climate change adaptation (enhancement of climate change resilience); and (3) other environmental benefits (including improved resource efficiency, reduced local pollution, greater resilience and the restoration of ecosystems). The aggregate volume of GET finance is reported annually as a share of annual banking investment. An EBRD project must be determined as Paris aligned to be eligible for GET finance attribution; this process uses common datasets and evidence. A project that is Paris aligned may not necessarily involve GET finance, however.

A1.3. EBRD processes linked to a project's Paris alignment, taking place before project signing and as part of project monitoring include:

a. **Environmental and Social Policy**. The Bank's Environmental and Social Policy guides project-level due-diligence, management, monitoring and reporting.[82] The environmental and social assessment of a project provides important environmental information relevant to Paris alignment (such as the environmental management systems of the financial intermediary client or the level of GHG emissions from the investment or from client operations). The environmental and social requirements of financial intermediaries are captured in Performance Requirement 9.

b. **Green transition impact.** "Green" is one of the EBRD's six transition qualities. To have a green transition impact, a project must deliver green outcomes in line with environmental objectives. Projects are awarded a higher transition impact rating if they have enhanced systemic impact, such as large, positive environmental outcomes, complementary policy dialogue or innovation (major demonstration impact, for example). A project's green transition impact can also be supported by the Bank's other transition qualities, for example, corporate climate governance (well governed); green capital market development (resilience); policy engagement to decommission state-owned fossil-fuel infrastructure (competitive); the development of plans for electric-vehicle charging infrastructure networks (integrated); and consideration of just transition (inclusive).

[81] See EBRD (2020) for the EBRD's Green Economy Transition Approach 2021-25.

[82] See EBRD (2019a) for the EBRD's Environmental and Social Policy.

c. **Climate-related financial risk.** Determining a project's Paris Agreement alignment is distinct from the concept of climate-related financial risk. Climate-related financial risk focuses on the Bank's financial counterparty. This perspective is captured by the EBRD's approach to risk management and disclosure in line with the TCFD framework. The assessment considers the potential risks from climate change – be they from low-carbon transition ("transition risks") or climate impacts ("physical risks") – that could affect the commercial viability of companies or financial institutions, impact broader financial stability and, therefore, affect the capital of the Bank. While likely to draw on similar sources of information for individual projects, the climate risk approach covers financial impacts to the counterparty, typically beyond the boundaries of the project. Furthermore, consideration is also given to the reputational impacts for the EBRD of high-emitting projects, and a separate stranded asset assessment is applied to energy-intensive businesses.[83]

[83] See EBRD (2023b) for the EBRD's own disclosure in line with TCFD recommendations, focusing on the Bank's portfolio position as of 31 December 2022.

Annex 2. Joint MDB "aligned" and "not aligned" project lists

A2.1. The MDB Paris Alignment Working Group has developed two lists to facilitate MDBs' assessments of whether projects are aligned with Paris Agreement mitigation goals. The lists are applied uniformly across countries and generally under all circumstances.

a. **The universally "aligned" list** covers activities that contribute to climate action consistent with pathways towards the mitigation goals of the Paris Agreement under all circumstances and have a negligible impact on climate change.

b. **The universally "not aligned" list** covers highly emissive activities that are considered to be universally inconsistent with countries' low-GHG development pathways or incompatible with the goals of the Paris Agreement.

A2.2. The following information replicates the projects lists set out in a joint MDB publication in June 2023.[84] The information may be revised and updated.

A2.3. Project types included in the list have to undergo specific assessment if any of the following applies:

a. their economic feasibility depends on external fossil-fuel exploitation, processing and transport activities

b. their economic feasibility depends on existing fossil-fuel subsidies

c. they rely significantly on the direct utilisation of fossil fuels

Table A2.1. Activities considered universally aligned ("aligned" list)

Sector	Eligible project type	Conditions and guidance
Energy	Generation of renewable energy (e.g., from wind, solar, wave power, etc.) with negligible lifecycle GHG emissions.	Includes generation of heat or cooling.
	Rehabilitation and desilting of existing hydropower plants, including maintenance of the catchment area (for example, a forest management plan).	Rehabilitation includes work on the water holding capacity of the dam and work on pipes / turbines to increase productivity and bring additional grid stabilization benefits, and for pumped storage.
	District heating or cooling systems with negligible lifecycle GHG emissions.	Using significant renewable energy or waste heat or cogenerated heat or a) modifications to lower temperature delta b) advanced pilot systems (control and energy management, etc.).
	Electricity transmission and distribution, including energy access, energy storage, and demand-side management.	
	Cleaner cooking technologies.	Cleaner cooking technologies substitute the use of traditional solid biomass fuels in open fires; they include sustainable biomass or electric cook stoves.
Manufacturing	Non-energy-intensive industry (excludes chemicals, iron and steel, cement, pulp and paper, and aluminium).[85]	Consider the nature of the product produced (carbon content, lifetime, ability to be reused/recycled).

[84] See MDBs (2023b).

[85] The EBRD's interpretation of energy-intensive industries are base chemical manufacturing, cement manufacturing, glass manufacturing, lime manufacturing, pulp and paper making, primary aluminium and copper smelting, and iron and steel smelting.

Sector	Eligible project type	Conditions and guidance
	Manufacture of electric vehicles; non-motorized vehicles, electric locomotives; non-motorized rolling stock.	
	Manufacture of components for renewable energy or energy efficiency.	
Agriculture, forestry, land use and fisheries	Afforestation, reforestation, sustainable forest management, forest conservation, soil health improvement.	With the exception of operations that expand or promote expansion into areas of high carbon stocks or high biodiversity areas.
	Low-GHG agriculture, climate-smart agriculture.	With the exception of operations that expand and promote expansion into areas of high carbon stocks or high biodiversity areas and taking into account (international) transport.
	Conservation of natural habitats and ecosystems.	With the exception of operations that expand or promote expansion into areas of high carbon stocks or high biodiversity areas.
	Fishing and aquaculture.	
	Non-ruminant livestock with negligible lifecycle GHG emissions.	
	Flood management and protection, coastal protection, urban drainage.	
Waste	Separate waste collection (in preparation for reuse and recycling), composting and anaerobic digestion of bio-waste, material recovery, and landfill gas recovery from closed landfills.	
Water supply and wastewater	Water supply systems (e.g., expansion, rehabilitation); water quality improvement; water efficiency (e.g., non-revenue water reduction, efficient process in industries); drought management; water management at watershed level.	Desalination plants need to go through specific assessment
	Gravity-based or renewable energy-powered irrigation systems.	
	Wastewater treatment (domestic or industrial), including treatment and collection of sewage, sludge treatment (e.g., digestion, dewatering, drying, storage), wastewater reuse technology, resource recovery technologies (e.g., biogas into biofuel, phosphorus recovery, sludge as agriculture input, sludge as co-combustion material),	
Transport	Electric and non-motorized urban mobility.	
	Roads with low traffic volumes providing access to communities which currently do not have all-weather access (for example, connecting farmers to markets or providing access to a rural school, hospital, or better social benefits).	Except if there is any risk of contributing to deforestation
	Electric passenger or freight transport.	
	Short sea shipping of passengers and freight ships.	
	Inland waterways passenger and freight transport vessels	
	Port infrastructure (maritime and inland waterways).	
	Rail infrastructure.	
	Road upgrading, rehabilitation, reconstruction, and maintenance without capacity expansion.	
Buildings and public Installations	Buildings (education, healthcare, housing, offices, retail, etc.).	Needs to meet green building certification criteria as established by each individual MDB[86].
	LED street lighting.	

[86] MDBs are working on the approach to assess the Paris alignment of buildings and the role of certification schemes. This approach can also take into account the impact of materials on the alignment of buildings with the low-carbon pathways envisioned by the Paris Agreement.

Sector	Eligible project type	Conditions and guidance
	Parks and open public spaces.	Excluding energy-consuming installations[87].
Information and communications technology (ICT) and digital technologies	Information and communication.	Data centres need to go through specific assessment
Research, development, and innovation	Professional, scientific, research and development (R&D), and technical activities.	
Services	Public administration and compulsory social security.	
	Education (excluding infrastructure/buildings).	
	Human health and social work activities (excluding infrastructure/buildings).	
	Social protection, cash transfer schemes.	
	Arts, entertainment, and recreation (excluding infrastructure/buildings).	
Cross-sectoral activities	Conversion to electricity of applications that currently use fossil fuels.	

Table A2.2. Activities considered universally "not aligned" ("not aligned" list)[88]

Mining of thermal coal
Electricity generation from coal
Extraction of peat
Electricity generation from peat

[87] Energy-consuming installations are those beyond lighting and routine maintenance such as watering. Examples are major built-up areas (that is, buildings) or energy-intensive installations (for example, fountains or playground and recreational equipment that need a non-renewable power source).

[88] Being omitted from this list does not mean that an operation type is endorsed by or will be financed by the MDBs.

Annex 3. Approach to the economic viability test

Application

A3.1. This annex sets out the EBRD's approach to conducting an economic viability test. The economic viability test takes the form of an economic assessment using a shadow carbon price. It updates and supersedes the *Methodology for the economic assessment of EBRD projects with high greenhouse gas emissions.*[89]

Application

A3.2. An economic viability test will, subject to certain exceptions set out in paragraph A3.5, be conducted for investments with known use of proceeds, which:

a. have absolute GHG emissions of more than 100,000 tonnes of carbon dioxide equivalent (CO_2e) per year after EBRD investment, or

b. increase GHG emissions by more than 25,000 tonnes of CO_2e per year after EBRD investment compared to the pre-project scenario.

A3.3. These thresholds have been chosen to capture projects that have significant GHG emissions.[90] Due to the input requirements, the economic assessments will be undertaken for projects that have underlying financial information and accurate GHG estimates and, where applicable, other emissions estimates.

A3.4. As per the current EBRD and multilateral development bank (MDB) practice, the analysis will consider Scope 1 (direct) and Scope 2 (indirect or electricity) GHG emissions. Scope 3 GHG emissions (those related to the upstream or downstream impact of the investment) will generally not be included as there is no agreed methodology for these types of impact and there is a risk of double-counting. However, as the EBRD is keen to consider the upstream or downstream impact of its projects, Scope 3 GHG emissions may be taken into consideration in some applicable infrastructure projects where these are relevant (for example, energy pipelines).

A3.5. Because of the interaction with other steps of the Paris alignment approach for directly financed investments, the economic viability test will be conducted for projects where a conclusive alignment determination has not been made in the general screening step, and where it is also additionally informative. An economic viability test will not be additionally informative when:

a. other tools already provide strong evidence for arriving at an alignment determination, in particular, if the project is readily identifiable within a credible low-carbon pathway per the low-carbon pathway tool of the specific assessment (see paragraphs 2.182.26 to 2.31), or

b. an assessment of economic viability is not well suited to the project type. This recognises that whereas an economic viability test can be readily conducted in some sectors to arrive at robust conclusions, there will be significant uncertainties surrounding the conclusions of economic viability tests in other sectors, particularly those in which prices are substantially deregulated and there are significant cross-sectoral effects (that will often be cross-country).

[89] This methodology was prepared before the EBRD formalised its approach to Paris alignment. The EBRD made a corporate commitment in its Energy Sector Strategy 2019-23 to "apply shadow carbon pricing as part of an economic assessment of projects that significantly increase GHG emissions". (See EBRD, 2023c). The goal of this commitment was to "support alignment with the SDGs and the Paris Agreement, and reflecting the risk of carbon lock-in." As the Bank has now developed a dedicated Paris alignment methodology to tackle this topic systematically in projects, the approach to economic assessment has been integrated into this methodology as the "economic viability test".

[90] To estimate GHG emissions, the EBRD follows commonly accepted approaches for GHG accounting (see EBRD, 2017).

Examples of sectors in which this is the case are industry, mining of commodities, food production and airlines.

Outline of methodology

A3.6. In applicable projects, there will be two steps.

Step 1: Define the baseline and counterfactuals to compare the project

A3.7. The economic viability test will look at the "gross" and "net" impacts of the project. This requires comparing the proposed project with an alternative scenario or "counterfactual" (that is, what would happen in the absence of the project).

A3.8. There are three potential baselines, which are not mutually exclusive:

a. "do nothing" – for example, in a capacity upgrading project, the counterfactual would be letting the capacity gradually deteriorate until the end of the lifetime. In a "greenfield" project, the alternative would be no project at all.

b. "do minimum" – for example, in a capacity upgrading or capacity expansion project, the counterfactual would be an investment sufficient to keep the existing capacity just operational.

c. "do something else" – that is, the use of an alternative technology or course of action. This is appropriate once it is recognised that "something" must be done.

A3.9. The choice of counterfactual(s) will depend on the specific investment and will thus be assessed in the context of each project. Where insightful, a range of counterfactuals will be considered to meet the aims and objectives of the project.[91]

Step 2: Undertake an economic assessment of the project, including a sensitivity analysis

A3.10. In general, when applying an economic assessment, a cost-benefit analysis (CBA) or cost-effectiveness analysis (CEA) will be conducted.

A3.11. A CBA measures the difference between the flow of costs and benefits of the project compared with a counterfactual. A cost-effectiveness analysis (CEA) will be more appropriate in some circumstances.[92] A CEA compares the costs of different, realistically available project alternatives to achieve a given outcome. This is preferable to CBA when the outcome of the project and different alternatives are relatively homogenous and easily measurable. It can also be used where (i) benefits are equivalent among multiple options; and/or (ii) where benefits are difficult to quantify.

A3.12. To ensure focus and insight, as well as a pragmatic approach, the most important material impact should be identified as early as possible in the process (to the fullest extent possible). The approach taken will be commensurate with the size and complexity of the project.

A3.13. A sensitivity analysis is used to identify the "critical" variables of the project outcome. For the shadow carbon price, a "switching value" will be calculated. This is the value at which a particular variable would change the project investment decision, assuming all other variables are constant.

[91] The baseline definition for projects subject to economic assessment should be consistent with the baseline used for GHG assessment, as defined by the EBRD *GET Handbook*. See EBRD (2023a).

[92] For power projects, a cost-effectiveness analysis will be the standard option undertaken in projects related to electricity generation, unless there is clear rationale for taking a different approach.

Features and assumptions for conducting an economic viability test

Financial revenues and costs

A3.14. The economic viability test will build on the project financial assessment that is routinely undertaken as part of the EBRD's investment appraisal process. Monetary values for counterfactuals should be based on likely project costs, based on country-specific conditions or an international benchmark.

A3.15. The costs included in the project financial assessment may require adaptation and may sometimes be modified to capture its entire lifetime rather than the length of the EBRD loan. This will include estimating for both the project and the counterfactual(s):

a. revenues derived from the implementation of the project, normally based on sales values and market prices

b. capital expenditures needed to set up and establish the project

c. operating expenditures required to operate and maintain the project

d. any operating savings from implementing the projects.

A3.16. All revenues and costs will be presented consistently in constant market prices.

Shadow carbon price

A3.17. The EBRD uses a carbon price derived from the NGFS as a leading reference point in scenarios for the financial sector related to climate change (see Table A3.1). This is based on the NGFS's September 2022 "orderly transition" scenario, consistent with achieving the Paris Agreement's 1.5 °C mitigation goal.[93] The Bank will continuously monitor external developments and update the prices it uses as needed.

A3.18. For the purposes of a core assumption in project assessments, the EBRD will test the economic viability of projects against the relevant carbon price and will calculate a "switching value" carbon price to better understand what level would change the economic merits of the project.

A3.19. Carbon prices will not be differentiated by country. Adjustments will be made to account for market carbon prices used in the financial analysis.[94]

A3.20. The GHG emissions estimates used will be based on independent environmental and social due diligence routinely commissioned by the Bank (and internally verified).

Table A3.1. Shadow carbon price used by the EBRD (euros per tonne of CO_2e in 2022 prices)

	2022	2025	2030	2035	2040	2045	2050
Shadow carbon price	101	131	179	236	309	427	602

Other environmental externalities

A3.21. The EBRD will attribute costs to other relevant environmental externalities where both physical data and economic values can be found. At this stage, it is foreseen that the analysis will mostly

[93] The carbon price represents the average of the three Integrated Assessment Models used by the NGFS in an analysis of a Net Zero scenario. These models are GCAM 5.3+NGFS, MessageIX Globiom 1.1, REMIND MAgPIE 3.0-4.4 and the prices are based on the September 2022 modelling results of NGFS base on an "orderly transition" scenario. Prices have been taken from NGFS data (presented in USD and in 2010 prices) and converted into 2022 prices and euros using data from the ECB.

[94] Where a project is subject to a real market price of carbon and this is already included in the financial cash flows of a project, then only the difference between the actual carbon price and shadow carbon price needs to be included to avoid double counting.

focus on costs for air pollution impacts and it will normally not be possible to quantify the extent of other environmental externalities (for example, water pollution, noise, soil contamination, landscape deterioration, biodiversity loss, ecosystem service). The EBRD will, over time, seek to improve its approach.

A3.22. Emissions of local air pollutants will be estimated based on the 2021 European Environment Agency study of the cost impacts of such emissions in Europe.[95] The main air pollutants examined, which the EBRD will include in its economic viability test, include particulate matter ($PM_{2.5}$, PM_{10}), sulphur dioxide (SO_2), ammonia (NH_4) and nitrogen oxides (NO_x). The EBRD may adjust values as appropriate to a given situation in an economy where the EBRD invests to reflect differences in wealth, population density and other project specifics.

Accounting for non-environmental externalities and other adjustments to financial values

A3.23. Where there are significant additional costs and/or benefits related to a project and its counterfactuals they should be included. The approach will be proportionate to the likely size of the impact and the practicality of estimating values.

A3.24. The factors to take into account will be sector-specific.[96] Typical adjustments could include:

a. estimating the price of inputs (for example, energy consumed) and of outputs (for example, energy sales), particularly in those cases where prices are administratively set and need to be replaced by "commercially driven" prices (for example, international prices of the commodities or a "cost plus margin" approach)

b. removal of certain taxes and subsidies as they are transfers from one group in society to another, but do not represent a use of resources

c. in a transport project, estimating the value of travel time savings, health impacts of reduced accidents from safer roads and reliability and comfort of different transport options.

A3.25. Wider economic impacts and indirect impacts of the project being implemented will in general not be assessed. The EBRD will generally not calculate any change in market conditions (and associated economic impacts) from the equilibrium price as a result of the project, unless project implementation would fundamentally change the market where the investment is made

Discount rate

A3.26. To make costs and benefits that arise at different points in time comparable, the EBRD will use an "economic discount rate" or "social discount rate". Every discount rate entails a judgement concerning the future and it affects the weight attributed to future benefits or costs. There is no definitively agreed approach but discount rates are normally based on the social rate of return on private investments or social opportunity cost of capital, or the social rate of time preference.[97]

A3.27. Given the range of possible methods, the EBRD has chosen to use a real discount rate of 6 per cent – in line with the approach taken by other multilaterals and governments – running sensitivities at higher and lower rates.[98]

[95] EEA Counting the Costs of Industrial Pollution (2021). The externality assessment focuses on larger operators, including power stations, industrial-chemical complexes, refineries, waste incinerators and others across Europe (EEA38 and the UK).

[96] Information on other material economic costs and benefits are discussed extensively in European Commission (2014).

[97] See Freeman, Groom and Spackman (2018); OECD (2018); European Commission (2014); EIB (2013).

[98] As a guide, analysis for the EBRD methodology for the assessment of coal-fired generation projects suggested a likely range of applicable discount rates of between 5-8 per cent for EBRD countries, based on the social rate of time preference approach.

Financing costs

A3.28. In standard financial analysis the cost of financing is not included. However, for some projects the cost of finance will be a genuine cost to society and should be included. Examples would be where private firms are financing the investment although the benefits accrue to the wider society or if one investment is deemed to be riskier than another and would, in practice, incur higher financing costs.

A3.29. In cases where financing costs are included, the Spackman Approach will be used.[99]

Project boundary and counterfactual consistency with GHG accounting

A3.30. The project boundary for the calculation of the economic costs and benefits, and the calculation of the GHG emissions should be consistent. The approach to project boundary will be informed by the EBRD's internal approach to defining project boundaries and the approaches of other MDBs on similar types of projects. In general, the project should be a self-sufficient unit of analysis with no essential feature left out. This means projects should not be partitioned for financing, administrative or engineering reasons; and should also have clearly defined cash flows.[100]

Reporting

A3.31. The project summary document, published externally, will refer to the economic viability test and contain a summary of the key outputs.

[99] See further discussion of financing costs and the "Spackman Approach" in the Joint Regulators Group (2012).

[100] For further discussion of defining project boundaries for economic analysis see European Commission (2014).

Annex 4. Determining the Paris Agreement alignment of EBRD investments – sectoral application

Context

A4.1. The EBRD has prepared supplementary guidance on sector-specific issues relevant to the determination of Paris alignment. By building on the elements of the assessment approach set out in EBRD's Paris alignment methodology for directly financed investments, it supports the implementation of the methodology when the Bank is determining the alignment of its projects with the Paris Agreement's mitigation and adaptation goals.

A4.2. The supplementary guidance takes into account considerations relevant to individual sectoral interpretation of the overall principles set out in the Bank's Paris alignment methodology. It is not intended to be comprehensive and cover all sub-sectors and project types. Further refinements will be added as required in future updates of the methodology.

A4.3. The guidance covers the following sectors:

a. energy
b. buildings
c. transport
d. waste
e. agribusiness.

A4.4. Each subsequent sub-section covers the following three issues:

a. A description of project lists agreed with other MDBs as part of technical discussions in the MDB Paris Alignment Working Group (as set out in Annex 2). Focused on the Paris Agreement mitigation goals, they represent a shared view as of November 2021. The lists will be revised and updated in consultation with other MDBs.[101]
b. A description of sector issues related to the alignment of projects with the mitigation goals of the Paris Agreement.
c. A description of sector issues related to the alignment of projects with the adaptation goals of the Paris Agreement.

A4.5. While the following sector guidance is focused on individual sector application, the EBRD will consider any cross-sectoral interdependencies when determining Paris alignment (for example, how investments in energy may influence water use (and, therefore, have climate resilience considerations).

[101] See MDB Paris Alignment Working Group (2021).

Energy

Mitigation goals

Table A4.1. Activities considered universally aligned ("aligned" list) and not aligned: energy

"Aligned" project type	Conditions and guidance
Generation of renewable energy (e.g., from wind, solar, wave power, etc.) with negligible lifecycle GHG emissions	Includes generation of heat or cooling
Rehabilitation and desilting of existing hydropower plants, including maintenance of the catchment area (for example, a forest management plan)	Rehabilitation includes work on the water holding capacity of the dam and work on pipes/turbines to increase productivity and bring additional grid stabilization benefits, and for pumped storage
District heating or cooling systems with negligible lifecycle GHG emissions	Using significant renewable energy or waste heat or cogenerated heat OR Including: a) Modification to lower temperature delta b) Advanced pilot systems (control and energy management, etc.)
Electricity transmission and distribution, including energy access, energy storage, and demand-side management	
Cleaner cooking technologies	Cleaner cooking technologies substitute the use of traditional solid biomass fuels in open fires; they include sustainable biomass or electric cookstoves
Cross-sectoral activities	Conversion to electricity of applications that currently use fossil fuels
"Not aligned" project type	**Conditions and guidance**
Mining of thermal coal	
Electricity generation from coal	
Extraction of peat	
Electricity generation from peat	

Fossil-fuel projects in the energy supply sector

A4.6. The energy sector in the EBRD regions relies overwhelmingly on fossil fuels, which account for 80 per cent of the regions' GHGs. These energy-related GHG emissions (mostly CO_2) come from industries that produce energy (through electricity generation, petroleum refining and heat production), where fossil fuels account for nearly 90 per cent of the primary energy supply, and from direct fuel combustion by end users in sectors such as buildings, industry and transport. Investments to reduce energy sector-related emissions are in line with low-GHG development and focus on reducing carbon intensity (emissions per unit of energy), such as renewables, and also reducing energy intensity (energy use per unit of GDP) through energy efficiency measures.

A4.7. The EBRD's Energy Sector Strategy 2024-28 significantly limits investments in fossil fuels in the energy supply sector, reflecting climate and environmental concerns. The Energy Sector Strategy excludes investments in thermal coal mining, coal-fired electricity generation and upstream oil and gas exploration.[102]

[102] See EBRD (2023c).

A4.8. The Energy Sector Strategy makes clear that the EBRD will not invest in any fossil-fuel project unless it is aligned with the goals of the Paris Agreement (consistent with the Bank's methodology, as set out in this document). Furthermore, the Bank also expects a strong ambition to accelerate the low-carbon transition of the sector. The approach goes beyond a condition that the project is simply compatible with the goals of the Paris Agreement, but also ensures that it actively contributes to them.[103]

A4.9. This operational approach has the following implications for investment in energy sector-related fossil-fuel investments:

a. The Bank will not invest in the upstream oil or gas sector, where upstream means exploration, production, extraction or related services.

b. The Bank will not invest in the oil midstream or downstream sectors except in certain rare and limited cases to achieve high decarbonisation impact in existing assets through absolute GHG emission reductions or environmental impact remediation and pollution prevention; and always subject to the condition that there is no increase in the crude intake capacity of the relevant assets. The Bank will also support projects that exclusively target the introduction and scaling up of non-fossil fuels in the sector (for example, biofuels, e-fuels, electric vehicle chargers and/or hydrogen infrastructure).

c. The Bank will only invest in midstream and downstream gas infrastructure projects, such as gas pipelines, that: (i) are located in countries that have credible commitments to move towards decarbonisation, including to meet the Paris Agreement goals; (ii) are an essential part of a credible low-carbon strategy or pathway consistent with the Paris Agreement goals; and (iii) have a clear plan to control and/or reduce methane leakages from the relevant asset.

d. The Bank will support the decommissioning of existing coal, oil and gas assets and their conversion to low-carbon fuels.

e. Where the Bank provides finance that is not related to specific capital expenditures to a company with significant fossil-fuel assets operating in the energy sector (for example, privatisations, working-capital facilities, refinancing), it will only do so on the condition that the company has in place, or is committed to adopting, high corporate climate governance standards, such as the TCFD principles, and operates in a regulatory or corporate context which embeds strong commitments to decarbonisation.[104]

[103] In addition to the requirements of the Paris alignment methodology, a project must: (a) be located in a policy context that demonstrates commitment to the goals of the Paris Agreement and be consistent with this policy context (depending on the country and sector context, a commitment means a combination of policy commitments [NDCs, national energy and climate plans, LTSs, emissions targets set at sectoral or country level, targets for low-carbon technology deployment, and so on] that are consistent with the targets of achieving peak emissions as early as practically feasible and targeting net-zero emissions by 2050 or shortly thereafter); (b) not displace renewable sources or low-emission alternatives; (c) be consistent with the Bank's Environmental and Social Policy (including requirements for using Best Available Techniques); (d) demonstrate that they would not lead to stranded assets and therefore be subject to a thorough assessment of climate-financial risks; or (e) otherwise target exclusively the decommissioning of existing assets or repurposing for lower-carbon fuels.

[104] Significant fossil fuel assets are defined by the criteria set out in paragraph 4.8 of section 4.

District heating and cooling

A4.10. District heating and cooling systems heat or cool more than one building. Investments in district heating and cooling systems can cover (i) generation; (ii) networks or (iii) demand-side measures (such as metering, controls or individual heating substations).[105] The EBRD's investment in the district energy sector is primarily guided by its Municipal and Environmental Infrastructure and Energy Sector Strategies.[106]

A4.11. For general screening, the following project types will be determined as aligned with the mitigation goals of the Paris Agreement:

a. electricity, renewable or waste heat-driven cooling plants (subject to the refrigerant rules contained in the EU Fluorinated Gas regulations)

b. renewable and waste heat-based heat generation, including heat pumps[107]

c. natural gas-fired (or oil, if gas is not available) plant for backup, peaking or ancillary services included in an investment programme with the main use of proceeds for renewable or waste-heat power generation infrastructure, required for the effective operation of such generation infrastructure

d. small-scale natural gas generation/co-generation plants (defined as less than 20MW thermal input) that form a part of a wider investment programme

e. investments in network infrastructure (new, substantial expansion or refurbishment of existing), except those that (i) include the part of the network directly connecting coal-, oil- or peat-fired energy generation to the main network and/or (ii) increase the utilisation of coal-, oil- or peat-fired generation[108]

f. investments in demand-side measures at buildings or facilities connected to district energy networks.

A4.12. Investments in coal- and peat-fired generation plant will be determined as "not aligned".

A4.13. Other investment types not captured by the project types above will require specific assessment. The following guidance applies:

a. NDC review: Any specific reference to district heating and cooling in the NDC should be considered, probably as part of discussions on the energy sector.

b. LCP review: For investment in EU member states, the EU Energy Efficiency Directive includes benchmarks for efficient district heating and cooling systems at specific dates from 2025 to 2050 (including guidance for the level of renewable and waste heat based energy supply). This also offers a template LCP for projects outside the EU where no suitable LCP may exist that can be referenced, recognising that specific contextual factors and implementation timelines may be different.

c. Lock-in tests:

i. For natural gas generation not covered by the general screening, low-risk of carbon lock-in is demonstrated by meeting the following: (1) the plant demonstrates technical and economic low carbon readiness; (2) contracts with suppliers and consumers, legislation and market structure do not prevent the entry of new low carbon sources; and (3) there is a client commitment to future decarbonisation.

[105] Not covered here are: (i) residential, commercial and industrial heating and cooling systems supplying a single building; (ii) industrial and commercial process heating and cooling, supplying a single site/facility; and (iii) mass-burn energy-from-waste facilities.

[106] See EBRD (2018a; 2019c).

[107] If the source of waste heat is an oil industry facility, then a specific assessment is required. For biomass-based generation, the source criteria from EU Renewable Energy Directive must be met.

[108] Within the EU, all investments will be required to meet criteria for district energy in the EU Energy Efficiency Directive.

ii. For investments in portions of networks that directly connect coal, peat or oil generation assets, low risk is demonstrated by meeting the following criteria: (1) the investment should not result in increased utilisation of the assets; (2) the network has a credible commitment to facilitate the integration of heating/cooling generated from renewable energy or waste sources; and (3) it is technologically possible to convert the assets to lower-carbon use or there is a credible plan for replacement with lower-carbon plant.

iii. For main network investments that are substantively supplied by coal, peat or oil, low risk is demonstrated by meeting the following criteria: (1) the investment does not increase overall GHG emissions on an annual basis; (2) the network has a credible commitment to facilitate the integration of heating/cooling generated from renewable energy or waste heat sources; (3) there is a clear plan for implementation of a LCP in the sector.[109]

d. Economic viability test: no specific guidance.

Adaptation goals

A4.14. No specific guidance.

[109] The third criterion is applicable to vertically integrated operators and unbundled transmission/distribution operators where it is clear that they have influence over third-party generation operators.

Buildings

A4.15. Buildings use energy directly for space heating and cooling, hot water, lighting, equipment and appliances. Its contribution to climate action can be achieved primarily through passive design, energy efficiency, on-site renewable energy and fuel switching to low-carbon substitutes.[110] The EBRD's investment in the building sector is primarily guided by the Bank's sectoral strategies for property and tourism and municipal and environmental infrastructure.[111]

Mitigation goals

Table A4.2. Activities considered universally aligned ("aligned" list): buildings

Eligible project type	Conditions and guidance
Buildings (education, healthcare, housing, offices, retail, etc.)	Needs to meet green building certification criteria as established by each individual MDB[112]
LED street lighting	
Parks and open public spaces	Excluding energy-consuming installations[113]

A4.16. For general screening, the following project types will be determined as aligned with the mitigation goals of the Paris Agreement:

a. In EU countries where the Bank operates, all building-related investments that demonstrate consistency with national energy performance in building regulations and/or minimum energy efficiency standards. This covers investments in the construction of new buildings, renovations of existing buildings or specific investment measures within a building and any acquisition or refinancing of existing buildings.[114]

b. Minor renovations or improvements of existing buildings that meet minimum national energy efficiency requirements (which should follow an approach defined by good practice). Countries without such provisions would be expected to meet relevant standards from another country with comparable climate conditions. A minor renovation or improvement is defined in line with article 2 of the EU Energy Performance of Buildings Directive (EPBD) as less than 25 per cent of the building's surface area or 25 per cent of the building's value.

c. Any building investment in any economy where the Bank operates that meets the minimum requirements of a reputable voluntary building certification scheme. Acceptable certification ratings are Building Research Establishment Environmental Assessment Method (BREEAM) Pass and Leadership in Energy and Environmental Design (LEED) Certified, Excellence in Design for Greater Efficiencies (EDGE) certification, German Sustainable Building Council (DGNB) certification or other certification schemes with comparable performance level.

A4.17. Projects involving buildings dedicated to the facilitation of the extraction, storage, transportation or production of coal or oil will be determined to be "not aligned". Buildings dedicated to other fossil fuels will require a specific assessment.

[110] Buildings activities include all activities related to the development, construction, ownership, operation, renovation and demolition of one or more buildings or facilities. Buildings of all sizes belonging to the residential, commercial, industrial and public sectors are included. Any investments in buildings are covered including: construction or development of new buildings; renovation of existing building; refinancing or acquisition of buildings; and operation, maintenance or repair. This sector specification does not cover industrial processes in an industrial building.

[111] See EBRD (2019c; 2019d).

[112] MDBs are working on an approach to assessing the Paris alignment of buildings and the role of certification schemes. This approach can also take into account the impact of materials on the alignment of buildings with the LCPs envisioned by the Paris Agreement.

[113] Energy-consuming installations are those beyond lighting and routine maintenance, such as watering. Examples are major built-up areas (that is, buildings) or energy-intensive installations (such as fountains or playground and recreational equipment that need a non-renewable power source)

[114] The definition of these national regulations and standards are informed by EU-wide legislation, including the EPBD, Energy Efficiency Directive and the Eco-Design Directive. This is consistent with the EU taxonomy Do No Significant Harm benchmark. Outside the EU, demonstrated equivalence will also be determined as aligned.

A4.18. Other investment types not captured by the project types above will require specific assessment. The following guidance applies:

a. NDC review: Any specific reference to buildings in the NDC should be considered.

b. LCP review:

i. Newly constructed buildings should be consistent with national energy performance regulations (which should follow an approach defined by good practice) or, where these regulations are not in place, buildings are expected to meet relevant standards from another country with comparable climate conditions.

ii. Major renovations of existing buildings should be compliant with national energy performance regulations (which should follow an approach defined by good practice) or materially improve a building's GHG impact (that is, through a combination of energy efficiency and renewable energy investments).

iii. Specific investment measures within buildings should meet minimum national energy efficiency requirements (which should follow an approach defined by good practice). Countries without such provisions are expected to meet relevant standards from another country with comparable climate conditions.

iv. For acquisition or refinancing projects of existing buildings, the general principles set out in points (i) to (iii) will apply.

c. Lock-in tests. Fulfilment of the criteria under the LCP review will mean that the risk of carbon lock-in is low. This because the assets being financed are unlikely to displace future investment in lower-carbon options. Other buildings projects will be required to demonstrate a low risk of carbon lock-in consistent with the approach set out in the main methodology.

d. Economic viability test: no specific guidance.

Adaptation goals

A4.19. While the general principles in the methodology for determining alignment with adaptation goals apply, the following sector-specific considerations are relevant:

a. In addition to considering the vulnerability of the building structure and assets, the intended use of the buildings and the vulnerability of the occupants to physical climate risks will also be considered.

b. Where climate risks are deemed material following the evaluation of the project's climate risk and vulnerability context (step 1 of the methodology), the definition of climate resilience measures (step 2) will integrate good practice guidance for buildings projects.[115]

[115] This builds on the general good practice guidance referenced in the methodology, which applies to all sectors. See, for example, UNEP (2021), UK Town and Country Planning Association (2016) and CIBSE (2014).

Transport

A4.20. Transport covers all infrastructure, facilities and fleets associated with road, rail, air and water travel. A contribution to climate action can be achieved through low-carbon technologies and fuels, fleet efficiency improvements and behavioural change to reduce travel demand and shift to lower-carbon transport modes. The EBRD's investment in the sector is guided principally by the Bank's Transport Sector Strategy.[116]

Mitigation goals

Table A4.3. Activities considered universally aligned (aligned list): transport

Aligned project type	Conditions and guidance
Electric and non-motorized urban mobility	
Roads with low traffic volumes providing access to communities which currently do not have all-weather access (for example, connecting farmers to markets or providing access to a rural school, hospital, or better social benefits)	Except if there is any risk of contributing to deforestation
Electric passenger or freight transport	
Short sea shipping of passengers and freight ships	
Inland waterways passenger and freight transport vessels	
Port infrastructure (maritime and inland waterways)	
Rail infrastructure	
Road upgrading, rehabilitation, reconstruction, and maintenance without capacity expansion	

Roads

A4.21. Road infrastructure comprises roads open to public traffic and primarily, but not exclusively, for the use of road motor vehicles. Paris alignment considerations for the road sector covers road infrastructure and the wider context for transport that influences the use of vehicles on the road itself. A broad range of interventions will be required to decarbonise (for example, electric vehicles, low-carbon fuels, modal shift).[117]

A4.22. For general screening, the following project types, or components thereof, will be determined to be aligned with the mitigation goals of the Paris Agreement:

a. rural roads with low traffic volumes (including those providing all-weather access from main road networks to local communities)

b. road upgrade, rehabilitation, reconstruction and maintenance activities not aimed at increasing capacity (that is, not increasing the physical size allocated to general traffic and private vehicles)

c. sustainable mobility solutions, including bus and cycle lanes, pedestrianisation, crossings, "charge-in-motion" networks, electric vehicle charging infrastructure and micro-mobility

d. components dedicated to road safety

e. improvements to existing local road traffic conditions not intended to substantially expand capacity, including traffic flow improvements, such as traffic management systems, junction separations and digitalisation to reduce congestion

[116] See EBRD (2019e). Under the strategy, the Bank will not finance infrastructure and services principally dedicated to the transportation of coal.

[117] The scope of investment projects includes motorways, expressways, highways, urban roads and unpaved tracks and all structures, facilities and features to ensure the required level of service to road users (for example, bridges and viaducts, drainage structures, retaining walls traffic flow systems, laybys, traffic signals, sound barriers, rest and retail facilities, logistics parks and intelligent transport systems (road tolling, control centres, and so on.)).

f. construction of road sections (notably city bypasses or ring roads) that form part of a sustainable urban development plan that incorporates climate change mitigation aspects (notably Sustainable Urban Development Plans (SUMPs) or Green City Action Plans (GCAPs))[118]

g. other minor localised improvements not included in (a) to (f) for the purpose of improving local road traffic conditions (for example, congestion, urban or local constraints).[119]

A4.23. Other investment types not captured by the project types above will require specific assessment.[120] The following guidance applies:

a. NDC review: Any specific reference to roads in the NDC should be considered, probably as part of discussions on the transport sector.

b. LCP review: the project will be assessed for consistency with country-specific transport LCPs. These may include transport-specific low-carbon strategies or transport masterplans, where they meet the criteria for the use of LCPs set out in Box 2.1. In the absence of a suitable country-specific LCP, benchmarks derived from relevant regional and international LCPs will be used. Consistency with such LCPs will focus on project readiness to accommodate the infrastructural provisions for zero- and low-emission vehicle fleets (the key lever for road-fleet decarbonisation) as may be required within the project lifetime.

c. Lock-in tests to demonstrate a low risk of carbon lock-in:

   i. Urban roads projects [121] will demonstrate that lower-carbon urban transportation modes (such as, but not limited to, bus and cycle lanes) have been adequately considered.

   ii. Inter-urban roads projects will demonstrate that all operational, under-implementation or planned lower-carbon transportation modes have been considered in the demand forecasts, and for projects subject to an economic viability test, the project remains economically viable.[122]

d. Economic viability test: For applicable projects, the analysis will include the Scope 3 GHG emissions of associated traffic. Forecasts of fleet composition will include the expected uptake of zero and low-emission vehicles based on current market trends and scenarios, including consideration of national or regional policies or set targets (for example, fuel and road pricing, electric vehicle charging roll-out, power-system development, or adverse transport-related policies, such as fossil-fuel subsidies). Projects shall compare a “with project” scenario against a “without project” scenario in the form of a CBA.[123]

[118] Plans should sufficiently address climate change mitigation among other sustainability outcomes.

[119] Minor is defined as 15 per cent or less of the project’s total estimated capex investment. This may include realignments for junction improvements or access roads, geometric improvements, avoidance of urban encroachments and settlements, town pedestrian enhancement, traffic segregation or traffic management schemes, or access to roadside facilities or laybys.

[120] A specific assessment is required for the construction of new road infrastructure that substantially increases road capacity.

[121] Urban road projects are defined as those that intend to primarily serve intra-urban traffic (predominantly those roads with open access, street lighting and pedestrian facilities), as opposed to road projects serving inter-urban traffic (predominantly those roads with limited access, notably bypass or expressway standard).

[122] “Planned” refers to any scheme already defined at the level of transport masterplan (or equivalent) with sufficient detail to analyse quantitatively. In addition, these projects must have a realistic prospect of becoming operational during the economic lifetime of the asset (30 years).

[123] Per paragraph A3.6 to A3.8, this means that the counterfactual will not assess a “do something else” scenario. For road projects that operate within a wider transportation system, it is challenging to define a meaningful alternative to the project that can be assessed in a CBA. Rather, interactions with low-carbon modes are assessed as part of the carbon lock-in and integrated into the project scenario via traffic demand.

Aviation

A4.24. Aviation climate impacts arise from emissions from domestic and international flights, and the infrastructure related to those flights (defined as airports, flying fields and airport terminal services). Impacts can be reduced through measures such as: (i) the use of sustainable aviation fuels; (ii) improving the efficiency of conventional aircraft and accelerated replacement of the fleet; (iii) improving the efficiency of the aviation system (for example, optimising air corridors and route navigation to reduce flight time); (iv) promotion of behavioural change to reduce demand for flying; and (v) mitigating non-CO_2 impacts, such as cloud formation from contrails, through the management of supersaturated airspace. Due to the nascent stage of solutions to decarbonise aviation, it is expected this will be a sector in which CO_2 emissions will still be positive around mid-century, even under a global trajectory for net-zero carbon emissions (and therefore offsetting CO_2 emissions reductions in other sectors of the economy will be required for net zero).

A4.25. There is a distinction between how domestic and international aviation are treated in international climate change policy.[124] While domestic aviation is included in the scope of NDCs, international aviation's contribution to Paris Agreement goals is assigned to the International Civil Aviation Organization (ICAO).[125] Other industry bodies and governments also have targets and policies to support climate mitigation goals.[126]

A4.26. The following projects will be determined aligned with the mitigation goals of the Paris Agreement without requiring a specific assessment if it can be demonstrated that the projects (i) are not enabling, or are part of, a capacity (passenger or freight handling) expansion; (ii) do not involve financing of fossil fuel handling equipment; and (iii) meet other relevant sector Paris alignment criteria (for example, buildings guidance):

a. projects meeting EU Taxonomy "substantial contribution" criteria. Currently limited to "construction, modernisation, maintenance and operation of infrastructure that is required for zero tailpipe CO_2 operation of aircraft or the airport's own operations, as well as for provision of fixed electrical ground power and preconditioned air to stationary aircraft"[127]
b. airport terminal refurbishment and modernisation for safety, security and energy and material efficiency performance
c. airport terminal on-site renewable energy generation, ground-vehicle fleet electrification, and water and wastewater upgrades
d. air navigation services
e. air-fleet maintenance activities
f. ground handling services.

A4.27. Other investment types not captured by the project types above will require specific assessment. The following guidance applies:

a. NDC review: Any specific reference to aviation in the NDC/LTS should be considered, likely as part of discussions on the transport sector. The project should also be consistent with the ICAO's long-term aspirational goal (LTAG) of net zero emissions for international aviation by 2050 and associated implementing modalities (for example, CORSIA), and the country's state action plan as submitted to ICAO, if available.[128]

[124] Given the international nature of aviation, there is complexity in allocating GHG emissions from flights to specific countries. Measuring international aviation emissions can be calculated in various ways, but is generally done based on "bunker fuel sales".

[125] ICAO has adopted an LTAG of net zero by 2050. Implementing modalities (including CORSIA) should be considered as relevant decisions are taken over time.

[126] The International Air Transport Association (IATA), a key industry body that includes major airlines, also aims to halve net CO_2 emissions from international aviation by 2050, relative to 2005. The EU also includes aviation emissions in its ETS, however, at present, covering localised flights starting and ending within the EU.

[127] See European Commission (n.d.).

[128] See ICAO website for a current list of state action plans: https://www.icao.int/environmental-protection/pages/climatechange_actionplan.aspx.

b. LCP review:

   i. For airport infrastructure, the underlying assets (for example, energy, buildings, transport, water management) must be determined to be Paris aligned on their individual merits. For other major sources of emissions within the client's influence, in particular, emissions associated with the landing and take-off (LTO) cycle and passenger access, specific, credible actions or plans in line with relevant LCPs are to be in place with relevant stakeholders to reduce emissions.[129]

   ii. For projects related to the ownership and/or operation of aviation assets (for example, aircraft and auxiliary equipment required to operate aircraft), the asset owner/operator must demonstrate an emissions intensity trajectory consistent with a relevant LCP.[130]

c. Lock-in tests:

   i. For airport infrastructure to demonstrate a low risk of carbon lock-in, the project should: (1) ensure the provision of infrastructure required for future low-carbon aviation fleets; and (2) not dis-incentivise future investments in alternative lower-carbon transport modes where such a comparison is appropriate (for example, in high-speed rail).[131]

   ii. For any projects related to the ownership and/or operation of aviation assets, to demonstrate a low risk of carbon lock-in: (1) the counterparty is expected to have set (and publicly disclosed) a credible sustainable aviation fuel target consistent with industry peers and (2) where appropriate, any assets must be compatible with sustainable aviation fuels.[132]

d. Economic viability tests: For a project with significant CO_2 emissions, a positive economic case should be demonstrated. For many projects where an assessment of the indirect economic benefits is not readily quantifiable, in line with the approach set out in Annex 3, a cost-effectiveness analysis incorporating a carbon price will be undertaken. This will focus on an assessment of the project with a low-carbon alternative (viable alternatives defined as less than a 4.5 hours total journey time). In the case of newly constructed greenfield airports and new runways, a full cost benefit analysis must be undertaken. If possible, non-CO_2 impacts should also be included in the assessment.

[129] For example, aviation-specific LCPs from the Transition Pathway Initiative, Science-Based Targets Initiative, Mission Possible Partnership, Destination 2050, or the IEA.

[130] Ibid.

[131] For example, a regional airport targeting short-haul, domestic travel, which is forecast to have significant impact on market share of any current or planned low carbon alternatives (significant defined as 15 per cent of total traffic).

[132] Electric-powered aircraft will not be subject to this requirement.

Adaptation goals

Roads

A4.28. While the general principles in the methodology for determining alignment with adaptation goals apply, for the road sector, given the length of many roads projects, particularly extra-urban roads, it is expected, *a priori*, that such projects will be exposed to material physical climate risks. As roads are largescale infrastructure projects, they can be vulnerable to both acute and chronic physical climate hazards that may be present at any location over the route of the road. These projects will accordingly integrate good practice guidance for roads projects.[133]

Aviation

A4.29. No specific guidance.

[133] This builds on the general good practice guidance referenced in the methodology which apply to all sectors. See, for example, World Road Association (2015) and CEDR (2015; 2016).

Waste

A4.30. Municipal solid waste (MSW) covers waste – either mixed or collected separately – from households or other sources.[134] EBRD economies exhibit a range of different MSW management systems at different stages of development, with the Bank ascertaining appropriate investments on a case-by-case basis, depending on country context and affordability assessments. These stages of development fall into three broad categories:[135]

a. Early-stage development, meaning the priorities are professional collection and disposal, near-full collection coverage across urban and rural areas and sound environmental practices at disposal sites. These priorities are facilitated by upgrading waste-collection infrastructure and closure and the remediation of dumpsites and waste disposal in sanitary landfills (which, in turn, tend to significantly reduce GHGs through the reduction of methane vented directly into the atmosphere).

b. Second-stage development, with early-stage development completed and priorities focused on technologies to divert solid waste from landfill. This comprises mechanical-biological treatment (MBT) plants and, at a minimum, waste separation at source on a pilot scale and subsequent processing and recycling with a strategy/roadmap/plan for moving towards the advanced development stage (requiring both an increase in financing and public awareness of recycling practices).

c. Advanced development, with priorities focused on (a) the separate collection of dry recyclables (glass, metals, paper and cardboard, plastics), biodegradable waste and residual (mixed) waste; (b) biodegradable waste that can be treated in composting plants/biogas plants with energy production and residual waste that can be treated in mechanical-biological treatment plants/waste-to-energy plants; and (c) waste prevention in addition to recycling in order to reduce waste before it occurs.

Mitigation goals

Table A4.4. Activities considered universally aligned (aligned list): waste

Sector	Eligible operation type	Conditions and guidance
Waste	Separate waste collection (in preparation for reuse and recycling), composting and anaerobic digestion of bio-waste, material recovery and landfill gas recovery from closed landfill	

A4.31. For general screening, the following project types will be determined as aligned with the mitigation goals of the Paris Agreement:[136]

a. the collection and transport of non-hazardous waste in source-segregated fractions, including projects involving the separate collection and transport of non-hazardous waste aimed at preparation for reuse or recycling

b. the composting of bio-waste, including projects involving the construction and operation of dedicated facilities for the treatment of separately collected bio-waste through composting with the resulting production and utilisation of compost

[134] Other sources where waste is similar in nature and composition to waste from households. MSW covers paper and cardboard, glass, metals, plastics, bio-waste, wood, textiles, packaging, electrical and electronic equipment, batteries and accumulators, and bulky waste (for example, mattresses and furniture). Municipal waste does not include waste from industrial production, agriculture, forestry, fishing, septic tanks and sewage networks and treatment, including sewage sludge, end-of-life vehicles or construction and demolition waste.

[135] In EU countries, these three stages correspond to a "waste hierarchy" as set out in the EU Waste Framework Directive. The hierarchy states that "waste prevention and re-use are the most preferred options, followed by recycling (including composting), then energy recovery, while waste disposal through landfills should be the very last resort."

[136] These project types are in line with EU waste-related regulation, policy and guidance (captured in the EU Waste Framework Directive, EU Landfill Directive, Industrial Emissions Directive and waste-related best available techniques (BAT) reference documents (BREFs).

c. the anaerobic digestion of bio-waste, including the construction and operation of dedicated facilities for the treatment of separately collected bio-waste through anaerobic digestion

d. material recovery from non-hazardous waste, including the construction and operation of facilities for the sorting and processing of non-hazardous waste streams into secondary raw materials involving mechanical reprocessing, except for backfilling purposes

e. landfill gas capture and utilisation, including the installation and operation of infrastructure in permanently closed landfills or landfill cells using new or supplementary dedicated technical facilities and equipment installed during or post landfill or landfill cell closure

f. the permanent closure and remediation of landfills or dumpsites, including landfill gas abatement and control systems (methane utilisation where viable, otherwise flaring or passive degassing systems).

A4.32. Other investment types not captured by the project types above will require specific assessment. The following guidance applies:

a. NDC review: Any specific reference to the waste sector in the NDC should be considered.

b. LCP review: Stepwise implementation towards waste management systems, which move up the waste hierarchy, will be required. Such stepwise implementation will be considered an indication of consistency with a pathway towards low GHG emissions.

c. Lock-in tests:

i. A low risk of carbon lock-in is demonstrated by meeting the following: (1) there are plans to introduce source-separation and/or waste processing, treatment and disposal technologies aiming at reducing GHG emissions in the sector at some point in the future; and (2) the project does not prevent biodegradable waste/recyclables from being collected separately and/or processed (including technology, commercial contracts, legislation and market structure) in order to reduce GHG emissions in the sector over the lifetime of the project.[137]

ii. For projects in construction and the operation of waste incineration plants, a low risk of carbon lock-in is demonstrated by meeting the following additional requirements. (1) The capacity of the plant should not prevent any recycling or circular economy targets a country may have (or, in the case of EU member states or accession countries, EU recycling targets). For projects outside the EU where there may be no suitable recycling or circular economy targets, EU targets can be can be referenced, recognising that specific contextual factors and implementation timelines may be different. (2) Energy from waste displaces electricity or heat generated from fossil fuel sources. (3) The plant should be built with carbon capture and storage (CCS) or be CCS ready.

iii. For waste collection infrastructure projects for mixed municipal waste, a low risk of lock-in is demonstrated by the possibility of repurposing the infrastructure once source-separation of waste streams can commence. Such rationale is applicable if (1) the project is located in an economy where MSW systems are at an early stage of development and a clear client commitment to implement EU-compliant disposal facilities can be demonstrated, or (2) subsequent treatment and disposal of the waste is in facilities compliant with EU waste-related regulation, policy and guidance.

iv. The construction and operation of MBT plants can demonstrate a low risk of carbon lock-in where (1) the subsequent treatment and disposal of the waste is in facilities

[137]There are two exceptions to these general conditions: (i) all projects in the construction and operation of new sanitary landfills or landfill cells will require pre-treatment measures and comply with applicable EU bio-waste diversion targets to demonstrate a low risk of carbon lock-in. This will not be required for initial investments where the MSW system is in an early stage of development and the lifetime of the new sanitary landfills or landfill cells is less than six years.

compliant with EU waste-related regulation, policy and guidance[138] and (2) the capacity of the plant is not hindering any recycling or circular economy targets a country may have (or, in the case of EU member states or accession countries, EU recycling targets). For projects outside the EU where there may be no suitable recycling or circular economy targets, EU targets can be can be referenced, recognising that specific contextual factors and implementation timelines may be different. Projects involving the production of refuse-derived or solid recovered fuels will be required to demonstrate that the fuel produced will be suitable for use as an alternative fuel linked to GHG emission reduction.

d. Economic viability test: The construction and operation of MBT plants need to demonstrate that the plants are economically viable once source-separation of waste streams commences.

Adaptation goals

A4.33. No specific guidance.

[138] Projects involving the production of refuse-derived or solid recovered fuels will be required to demonstrate that the fuel produced will be suitable for use as an alternative fuel linked to GHG emission reduction.

Agribusiness

A4.34. The agribusiness sector value chain comprises business activities "from farm to fork", including the supply of agricultural inputs, the production and transformation of agricultural products and their distribution to final consumers. A significant share of GHG emissions in agribusiness results from non-fossil fuel sources such as enteric fermentation, land-use change and agricultural practices (fertiliser application, residues and manure management). The Paris alignment approach will focus on the projects' material sources of GHG emissions. The EBRD's investment in this sector is guided principally by the Bank's Agribusiness Sector Strategy.[139]

Mitigation goals

Table A4.5. Activities considered universally aligned (aligned list): agriculture, forestry, land use and fisheries

Sector	Eligible operation type	Conditions and guidance
Agriculture, forestry, land use and fisheries	Afforestation, reforestation, sustainable forest management, forest conservation, soil health improvement	With the exception of operations that expand and promote expansion into areas of high carbon stocks or high biodiversity areas[140]
	Low-GHG agriculture, climate-smart agriculture	With the exception of operations that expand and promote expansion into areas of high carbon stocks or high biodiversity areas and taking into account (international) transport
	Conservation of natural habitats and ecosystems	With the exception of operations that expand or promote expansion into areas of high carbon stocks or high biodiversity areas[141]
	Fishing and aquaculture	
	Non-ruminant livestock with negligible lifecycle GHG emissions	
	Flood management and protection, coastal protection, urban drainage	

A4.35. For general screening, the following project types will be determined to be aligned with the mitigation goals of the Paris Agreement:

a. **Low-GHG agriculture, climate-smart agriculture**: A crop-farming project will be determined to be aligned when it fulfils the following criteria:

i. does not directly expand or promote the expansion of agricultural activity onto land that has the status of high carbon stock[142]

ii. does not include export-oriented production that relies on air transport for agricultural and food products (this does not apply to fresh, perishable agricultural goods)

iii. does not include infrastructure for controlled-environment agriculture reliant on artificial lighting[143]

[139] See EBRD (2018d).

[140] In interpreting the scope of this exception, the EBRD will be guided by the definitions and requirements of the Bank's Environmental and Social Policy, particularly in relation to supply chains and the protection and conservation of biodiversity, priority biodiversity features and critical habitats. Accordingly, the constraint related to the avoidance of expansion into high biodiversity areas is not referred to further in this guidance note, but assured through the application of the Environmental and Social Policy.

[141] Ibid

[142] Per the EU definition of land with high carbon stock. See EU (2018).

[143] Controlled environment agriculture projects with artificial lighting will be determined aligned when they feature: (i) best available technologies for lighting, heating, ventilation and cooling systems; (ii) sound energy management practices; and (iii) electricity from renewable sources.

iv. does not rely on water supplies from desalination infrastructure that use fossil fuels (coal, natural gas, oil)

v. does not prevent nitrogen management.

b. **Livestock, dairy production and aquaculture:** To be determined as aligned with the mitigation goals of the Paris Agreement, a project should not expand or promote the expansion of agricultural activity onto land that has the status of high carbon stock and should meet at least one of the following criteria:[144]

i. adherence to best industry practices that can be shown to enable a low GHG intensity of production in reference to appropriate benchmarks, while accounting for regional context or benchmarks[145] or

ii. a reduction in absolute GHG emissions or GHG intensity in line with a credible LCP.[146]

c. **Agricultural inputs supply, food processing, commodity trading, logistics and retail:**[147] These industries are normally non-energy intensive and projects will be determined aligned, with the exception of projects focused on trading and the primary processing of palm oil, cocoa, coffee, rice, soy, maize, dairy, poultry, pork or beef. These projects will be determined aligned with the mitigation goals of the Paris Agreement when at least one of the following conditions is met:

i. commodities (palm oil, cocoa, coffee, soy and maize) in the scope of the project are produced in regions with low deforestation risk and/or animal products (dairy, poultry, pork and beef) from supply chains that source the majority of animal feed from regions with low deforestation risk

ii. commodities in scope of the project have relevant certification (if available) or a traceability system that sufficiently mitigates risks associated with high GHG emissions and/or deforestation in its supply chain (for example, from commodity traders with robust policies and systems in place)

iii. the borrower has an engagement programme with their suppliers to reduce GHG intensity and/or the deforestation exposure of the project's supply chain

iv. the borrower commits to undertake an assessment of deforestation exposure and/or GHG emission reduction in the supply chain relevant to the project and develop an action plan to mitigate material risks.

A4.36. When a project featuring the aforementioned activities does not meet the relevant criteria listed above, a specific assessment will be undertaken. The following guidance applies:

a. NDC review: Any specific reference to agribusiness in the NDC should be considered.

b. LCP review: Given the economies in which the EBRD invests, sector- and country-specific LCPs covering agribusiness activities are limited, so the following global pathways may be used in the absence of more granular and context-specific information:

i. decarbonisation pathways from the Science Based Targets initiative (SBTi), including for individual agricultural commodities,[148] or

[144] Compliance with criteria (i) and (ii) may be defined as part of a specific assessment as deemed necessary during due diligence. Projects that do not meet criteria (i) or (ii), but do not substantially increase absolute GHG emissions, may be determined to be aligned when they provide significant environmental and/or climate resilience benefits.

[145] Refer to paragraph A.4.3b.

[146] Ibid.

[147] For any investments in buildings, the building sector guidance will only apply to project components financed by the EBRD and within the borrower's control.

[148] See SBTi (2022)).

ii. an emissions reduction trajectory from the agriculture criteria issued by the Climate Bonds Standard and Certification Scheme (for agricultural projects only).[149]

Given the high heterogeneity of food production systems in the economies in which the EBRD invests, global pathways may not always be suited to the project context.

Where reliance on quantitative GHG indicators and comparison with LCPs may not be appropriate (for example, insufficient data due to the local context or the type of transaction, or bespoke production systems that cannot be easily be reflected by existing pathways), adherence to best available techniques and practices relevant to the project may be used to determine alignment. This may include, for example:

i. best practices listed in Tables 3 and 4 of the agriculture criteria issued by the Climate Bonds Standard and Certification Scheme[150]

ii. adoption of GHG reduction measures specified in relevant sector-specific LCPs.

c. Lock-in tests: This will be assessed in the context of each project, in line with the general approach set out in section 2. In general, the risk of carbon lock-in resulting from physical assets is likely to be low, as the bulk of GHG emissions in agribusiness results from enteric fermentation, land-use change and agricultural practices (fertiliser application, residues and manure management).

d. Economic viability test: This will be assessed in line with the general approach set out in section 2 and approach described in Annex 3. Noting the challenges associated with applying this test in the agribusiness sector, this will be applied on a best effort basis with all analytical limitations clearly specified and with careful interpretation of results. This includes factors such as the complexity of establishing GHG emissions estimates, the lack of reliable industry data for niche sectors or the difficulty to integrate nutritional considerations into the assessment.

Adaptation goals

A4.37. The agribusiness sector and agricultural production, in particular, are inherently exposed to climate variability and extreme weather events. The materiality assessment of climate change-related risks of agribusiness projects and the formulation of resilience measures will focus on additional physical risks induced by climate change and will take into account the specificities of the local context and agribusiness activities financed by the EBRD. There are specific challenges for the agribusiness sector:

a. Modelling how food systems will change in the face of climate change is more complex than for other sectors, making it more difficult to quantify risks and define adaptation measures. Climate change data may be scarce in some economies in which the EBRD invests and/or for certain subsectors. Current climate science may not enable robust modelling of a number of impacts of climate change on complex agribusiness supply chains.

b. Climate change adaptation in agriculture is highly context specific, so the effectiveness of certain resilience measures may entail significant levels of uncertainty, especially when these have not been tried and tested in the project context. Adaptation measures may require significant research and development, local capacity building and communication to be developed and scaled up (for example, changes in agricultural practice).

[149] See CBI (2021).

[150] Ibid.

c. Agricultural production is responsible for the majority of freshwater consumption and has an important role to play in the resilience of wider water systems. This is assessed specifically, as set out in section 2, step 3 – appraisal of the broader climate resilience context.[151]

A4.38. In light of these challenges, the EBRD has a key role to play in raising awareness, building knowledge and adaptive capacity in the agribusiness sector. Therefore, projects will integrate good-practice guidance for assessing and managing physical climate risks in the agribusiness sector, where relevant.[152]

A4.39. Individual agribusiness projects are developed as part of a wider system and, therefore, are inherently connected to other parts of the wider economy. The boundaries of the Paris alignment adaptation assessment will be: (i) physical assets directly financed by the proceeds of EBRD finance; and (ii) physical assets linked to activities financed by EBRD use of proceeds and owned or directly controlled by the borrower and classified as associated facilities under the EBRD's 2019 Environmental and Social Policy.[153]

[151] See paragraph 2.65.

[152] This builds on the general good practice guidance referenced in the methodology, which apply to all sectors. For example, see FAO, 2021.

[153] The scope of the assessment may be extended to Tier 1 agricultural suppliers, where relevant, and subject to both data availability and capacity of the borrower, when all of the following conditions are met: (a) financed activity/physical asset(s) depends on the supply of a critical agricultural product sourced from a single location where suppliers may potentially be exposed to common climate hazards (for example, relying on water resources from a single watershed); and (b) it is not technically or economically possible to diversify procurement and source from different regions.

Annex 5. High-emitting sectors

A5.1. The following sectors have been identified as high emitting by the MDBs. The sectors represent a shared view as of June 2023 and will be revised and updated in consultation with other MDBs on a regular basis. The sectors are:

1. fossil fuel-dependent industries and activities – operations whose economic feasibility depends on external fossil-fuel exploitation, processing and transport activities or existing fossil fuel subsidies or that rely significantly on the direct utilisation of fossil fuels[154]
2. fossil fuel-based industries – gas production, oil and gas distribution, power generation and heat supply
3. energy-intensive industries or high-emission industrial processing – chemicals, hydrofluorocarbons (HFCs), iron and steel, pulp and paper, non-ferrous metals (such as aluminium or copper) and non-metal minerals (such as cement, lime and glass)[155]
4. aviation – understood as aircraft manufacturing and operations, aircraft leasing, airline operations, airport operations and the air-freight transport of goods and products.
5. shipping and other forms of transport as a core business[156]
6. animal products – the ruminant livestock supply chain and non-ruminant livestock with non-negligible GHG emissions, both including feed supply (related to 7)
7. sectors or activities that may lead directly to the expansion of or promote expansion into areas of high carbon stocks or high biodiversity areas (for example, soybean, palm oil, sugar, cacao, wood products and buildings).[157]

[154] To be defined by the MDB in terms of the specific production conditions of the counterparty. For the EBRD, this will be guided by the emissions threshold in paragraph 4.8.

[155] The EBRD's interpretation of energy-intensive industries is: base chemicals manufacturing, cement manufacturing, glass manufacturing, lime manufacturing, pulp and paper making, primary aluminium and copper smelting, iron and steel smelting.

[156] For example, shipping companies or companies that depend on shipping for their business model. Other forms of transport include, for example, car rental companies (for the EBRD, this will be guided by the emissions threshold in paragraph 4.8 to identify relevant counterparties).

[157] Excluding counterparties that have third-party certification or evidence that they are not expanding or promoting expansion into areas of high carbon stocks or high biodiversity areas. In interpreting the scope of this provision, the EBRD will be guided by the definitions and requirements of the Bank's Environmental and Social Policy, particularly in relation to supply chains and the protection and conservation of biodiversity, priority biodiversity features and critical habitats."

Bibliography

ACI (2018), *Airports' Resilience and Adaptation to a Changing Climate,* Brussels (available at: https://store.aci.aero/wp-content/uploads/2018/10/Policy_brief_airports_adaption_climate_change_V6_WEB.pdf).

CBI (2021), *Agriculture Criteria,* London (available at: https://www.climatebonds.net/files/files/standards/agriculture/Agriculture%20Criteria%2020210622v3.pdf).

CDC (2020), *Natural Gas Power Plants: Assessing alignment with the Paris Agreement*, London (available at: https://assets.cdcgroup.com/wp-content/uploads/2020/12/12145227/CDC_GasGuidance_December2020.pdf).

CDP (2022), *Are companies being transparent in their transition? 2021 Climate Transition Plan Disclosure*, London (available at https://www.cdp.net/en/reports/downloads/6127).

CEDR (2015), *ROADAPT: Roads for today, adapted for tomorrow – Guidelines*, Brussels (available at: https://www.cedr.eu/download/other_public_files/research_programme/call_2012/climate_change/roadapt/ROADAPT_integrating_main_guidelines.pdf).

CEDR (2016), *Acting on Climate Change*, Brussels (available at: https://www.cedr.eu/download/Publications/2016/CEDR2016-5_Acting-on-climate-change.pdf).

CIBSE (2014), *Design for Future Climate: Case studies*, London (available at: https://www.cibse.org/knowledge/knowledge-items/detail?id=a0q20000008I76aAAC).

DEFRA (2012), *Increasing the climate resilience of waste infrastructure,* London (available at: https://www.gov.uk/government/publications/increasing-the-climate-resilience-of-waste-infrastructure).

EBRD (1990), *Agreement Establishing the European Bank for Reconstruction and Development*, London (available at: https://www.ebrd.com/news/publications/institutional-documents/basic-documents-of-the-ebrd.html).

EBRD (2017), *EBRD protocol for assessment of GHG emissions*, London (available at: https://www.ebrd.com/documents/admin/ebrd-protocol-for-assessment-of-greenhouse-gas-emissions.pdf).

EBRD (2018a), *Implementing the EBRD Green Economy Transition, Technical Guide for Consultants: Reporting on projects performance against the Green Economy Transition Approach, version 2*, London (available at: https://www.ebrd.com/documents/climate-finance/implementing-the-ebrd-green-economy-transition.pdf).

EBRD (2018b), *The MDBs' alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient investment*, London (available at https://www.ebrd.com/news/2018/mdbs-make-joint-declaration-on-climate-finance-alignment.html).

EBRD (2018c), *Agribusiness Sector Strategy 2019-23*, London (available at: https://www.ebrd.com/documents/agribusiness/agribusiness-strategy.pdf).

EBRD (2019a), *Environmental and Social Policy*, London (available at: https://www.ebrd.com/news/publications/policies/environmental-and-social-policy-esp.html).

EBRD (2019b), *Methodology for the economic assessment of EBRD projects with high greenhouse gas emissions*, London (available at: https://www.ebrd.com/news/publications/institutional-documents/methodology-for-the-economic-assessment-of-ebrd-projects-with-high-greenhouse-gasemissions.html).

EBRD (2019c), *Municipal and Environmental Infrastructure Sector Strategy*, London (available at: https://www.ebrd.com/documents/municipal-infrastructure/mei-sector-strategy-2019.pdf?blobnocache=true).

EBRD (2019d), *Property & Tourism Sector Strategy 2020–2024*, London (available at: https://www.ebrd.com/sites/Satellite?c=Content&cid=1395238739352&pagename=EBRD%2FContent%2FDownloadDocument).

EBRD (2019e), *Transport Sector Strategy 2019-2024*, London (available at: https://www.ebrd.com/documents/transport/strategy-for-transport.pdf).

EBRD (2020), *Green Economy Transition Approach 2021-2025*, London (available at: https://www.ebrd.com/what-we-do/get.html).

EBRD (2021a), *EBRD announces full Paris alignment by end-2022,* London (available at: https://www.ebrd.com/news/2021/ebrd-announces-full-paris-alignment-by-end2022-.html).

EBRD (2021b), *Financial Sector Strategy 2021–25,* London (available at: https://www.ebrd.com/financial-sector-strategy.pdf).

EBRD (2023a), *Implementing the EBRD Green Economy Transition, Technical Guide*, London (available at: https://www.ebrd.com/get-technical.pdf).

EBRD (2023b), *Task Force on Climate-Related Financial Disclosures report 2022,* London (available at https://www.ebrd.com/tcfd-report-2022.pdf).

EBRD (2023c), *Energy Sector Strategy 2024-2028,* London (available at: https://www.ebrd.com/documents/power-and-energy/ebrd-energy-sector-strategy-20242028.pdf).

Economic Consulting Associates (2015), *Carbon lock-in toolkit*, London (available at: https://assets.publishing.service.gov.uk/media/57a08978ed915d622c000223/61516_Carbon_lock-in_toolkit.pdf).

EEA (2021), *Counting the Costs of Industrial Pollution*, Copenhagen (available at: https://www.eea.europa.eu/publications/counting-the-costs-of-industrial-pollution).

EEIB (2013), *The Economic Appraisal of Investment Projects at the EIB*, Luxembourg (available at https://www.eib.org/attachments/thematic/economic_appraisal_of_investment_projects_en.pdf).

P. Erickson, S. Kartha, M. Lazarus and K. Tempest (2015), "Assessing carbon lock-in", *Environmental Research Letters*, 10(8): 084023.

European Commission (n.d.), "EU taxonomy for sustainable activities", Brussels (available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en).

European Commission (2014), *Guide to cost benefit analysis of investment projects: Economic appraisal tool for Cohesion Policy 2014-2020*, Brussels (available at: https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/cba_guide.pdf).

European Financing Institutions Working Group on Adaptation to Climate Change (2016), *Integrating Climate Change Information and Adaptation in Project Development*, Luxembourg (available at: https://www.eib.org/attachments/documents/integrating-climate-change-information-adaptation-in-project-development-en.pdf).

European Union (2018), *Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (recast)*, Brussels (available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.328.01.0082.01.ENG).

European Union (2020), *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088*, Brussels, Official Journal of the European Union.

FAO (2021), *Climate resilience practices typology and guiding material for climate risk screening,* Rome (available at: https://www.fao.org/3/cb3991en/cb3991en.pdf).

M. Freeman, B. Groom and M. Spackman (2018), *Social Discount Rates for Cost-Benefit Analysis: A Report for HM Treasury,* London (available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935551/Social_Discount_Rates_for_Cost-Benefit_Analysis_A_Report_for_HM_Treasury.pdf).

GFANZ (2022), *Recommendations and Guidance on Financial Institution Net-zero Transition Plans* (available at: https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Recommendations-and-Guidance-on-Net-zero-Transition-Plans-for-the-Financial-Sector_June2022.pdf).

IDFC-MDBs (2017), *Joint International Development Finance Club (IDFC) - Multilateral Development Banks (MDBs) statement,* Paris (available at: https://www.ebrd.com/news/2017/together-major-development-finance-institutions-align-financial-flows-with-the-paris-agreement.html).

Investor Agenda (2021), *Investor Climate Action Plans (ICAPs): Expectations Ladder* (available at: https://theinvestoragenda.org/wp-content/uploads/2021/05/expectations-ladder.pdf).

IPCC (2018), *Global Warming of 1.5 °C: Special Report*, Geneva, Switzerland (available at: https://www.ipcc.ch/sr15/).

ISO (n.d.), *ISO 14090:2019(en) – Adaptation to climate change — Principles, requirements and guidelines* (available at: https://www.iso.org/obp/ui/#iso:std:iso:14090:ed-1:v1:en).

JASPERS (2017), *The Basics of Climate Change Adaptation Vulnerability and Risk Assessment* (available at: http://www.jaspersnetwork.org/plugins/servlet/documentRepository/downloadDocument?documentId=381#:~:text=Climate%20Change%20Adaptation%20Vulnerability%20and%20Risk%20Assessment%20is%20the%20process,adaptation%20measures%20to%20reduce%20that).

Joint Regulators Group (2012), *Discounting for CBAs involving private investment, but public benefit.* Ofcom, London (available at: https://www.ofcom.org.uk/__data/assets/pdf_file/0029/37856/jrg_statement.pdf).

MDBs (2015), Joint Statement by the Multilateral Development Banks at Paris, COP21 – Delivering Climate Change Action at Scale: Our Commitment to Implementation, Paris (available at: https://www.eib.org/attachments/press/joint-mdb-statement-climate_nov-28_final.pdf).

MDBs (2021a), *Joint Statement by the Multilateral Development Banks: Nature, People and Planet*, Glasgow, United Kingdom (available at: https://ukcop26.org/mdb-joint-statement/).

MDBs (2021b), *Progress Report: Multilateral Development Banks Working Together for Paris Alignment*, Glasgow, United Kingdom (available at: https://www.eib.org/attachments/events/cop26-joint-mdb-paris-alignment-update-presentation-en.pdf).

MDBs (2023a), *Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations* (available at: https://www.ebrd.com/ebrd-paris-agreement).

MDBs (2023b) *Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations: Direct Investment Lending Operations – List of Activities Considered Universally Aligned with the Paris Agreement's Mitigation Goals or Not Aligned* (available at: https://www.ebrd.com/ebrd-paris-agreement).

NGFS (n.d.), Network of Central Banks and Supervisors for Greening the Financial System, Paris (available at: https://www.ngfs.net/en).

OECD (2018), *Cost-Benefit Analysis and the Environment – Further Developments and Policy Use*, Paris (available at: https://www.oecd.org/governance/cost-benefit-analysis-and-the-environment-9789264085169-en.htm).

PCAF (2021), *Strategic Framework for Paris Alignment* (available at: https://www.carbonaccountingfinancials.com/newsitem/pcaf-strategic-framework-for-paris-alignment).

SBTi (2022), *Sector guidance* (available at: https://sciencebasedtargets.org/sectors).

N. Stern and J. E. Stiglitz (2017), *Report of the High-Level Commission on Carbon Prices*, World Bank, Washington, DC (available at: https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices/).

TCFD (2021a), *Task Force on Climate-related Financial Disclosures 2021 Status Report,* Basel, Switzerland (available at: https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Status_Report.pdf).

TCFD (2021b), *Guidance on Metrics, Targets, and Transition Plans*, Basel, Switzerland (available at: https://www.fsb.org/wp-content/uploads/P141021-2.pdf).

TPT (2022), *A Sector-Neutral Framework for private sector transition plans. Call for Evidence,* London (available at: https://transitiontaskforce.net/wp-content/uploads/2022/05/TPT_Call_for_Evidence.pdf).

UIC (2017), *Rail Adapt: Adapting the Railway for the Future,* Paris (available at: https://uic.org/IMG/pdf/railadapt_final_report.pdf).

UK Town and Country Planning Association (2016), *Climate change adaptation by design - a guide for sustainable communities*, London (available at: https://www.ukcip.org.uk/wp-content/Wizard/CC_by_design.pdf).

UNEP (2020), *Emissions Gap Report 2020*, Nairobi (available at: https://www.unep.org/emissions-gap-report-2020).

UNEP (2021), *Practical Guide to Climate-resilient Buildings and Communities*, Nairobi (available at: https://wedocs.unep.org/xmlui/bitstream/handle/20.500.11822/36405/Adapbuild.pdf).

United Nations (2015a), *Paris Agreement*. New York (available at: https://unfccc.int/sites/default/files/english_paris_agreement.pdf).

United Nations (2015b), *Transforming our world: the 2030 Agenda for Sustainable Development*, New York (available at: https://sdgs.un.org/2030agenda).

World Road Association (2015), *International Climate Change Adaptation Framework for Road Infrastructure*, Paris (available at: https://www.piarc.org/en/order-library/23517-en-International%20climate%20change%20adaptation%20framework%20for%20road%20infrastructure).

1732 Methodology to determine the Paris Agreement alignment of EBRD investments

Five Bank Street
London E14 4BG
United Kingdom
www.ebrd.com