

### 3. Paris alignment



#### EBRD activities aligned with the Paris Agreement

The EBRD is dedicated to supporting the economies in which it invests in meeting their goals and commitments under the Paris Agreement. The EBRD's approach to aligning its own activities with the Paris Agreement (Paris alignment) is integral to its support of climate action and, since end 2022, all new Bank activities<sup>1</sup> have been aligned. This was approved by the Bank's Board of Governors at its 2021 Annual Meeting and a detailed [implementation approach](#) has been developed and published.

Article 2.1(c) of the Paris Agreement commits signatories to making "finance flows consistent with a pathway towards low GHG emissions and climate-resilient development". This relates to both mitigation and adaptation goals and, in putting its commitment into practice, the EBRD is guided by the 1.5 °C goal (keeping global warming within 1.5 °C of pre-industrial levels). The Bank has worked with other multilateral development banks to develop an operational framework for alignment. The EBRD's commitment is reflected in the transactions financed and its interactions with clients.

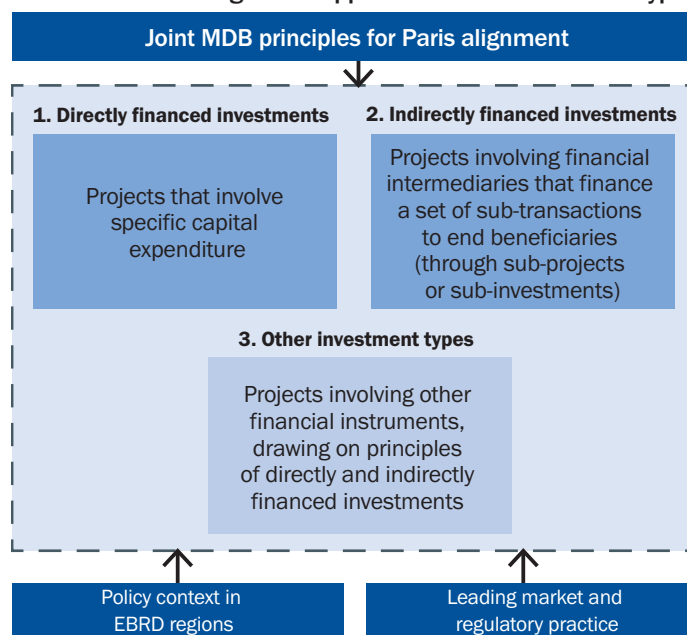
#### Methodology to determine the alignment of EBRD investments

In December 2022, the EBRD set out how it will determine whether an investment or technical cooperation project it might finance is "aligned" or "not aligned" with the mitigation and adaptation goals of the Paris Agreement. The EBRD sought feedback on all aspects of its methodology over the course of 2021 and 2022, including through two public consultations. It will continue to consult during implementation.

The methodology is in three parts to ensure a clear approach to determining alignment for all project types, covering the full suite of financial instruments the Bank may use: (1) directly financed investments; (2) indirectly financed investments; and (3) other investment types, including equity and funds (see figure above right). The methodology is also supported by sector-specific guidance when it comes to energy (fossil-fuel projects and district energy), buildings, transport (including roads and aviation), waste and agribusiness. The Bank's approach to the energy sector, including its approach to exclusions for certain fossil-fuel investments, is set out in its [Energy Sector Strategy](#).

#### The EBRD's Paris alignment methodological framework

##### The EBRD's Paris alignment approach – other investment types

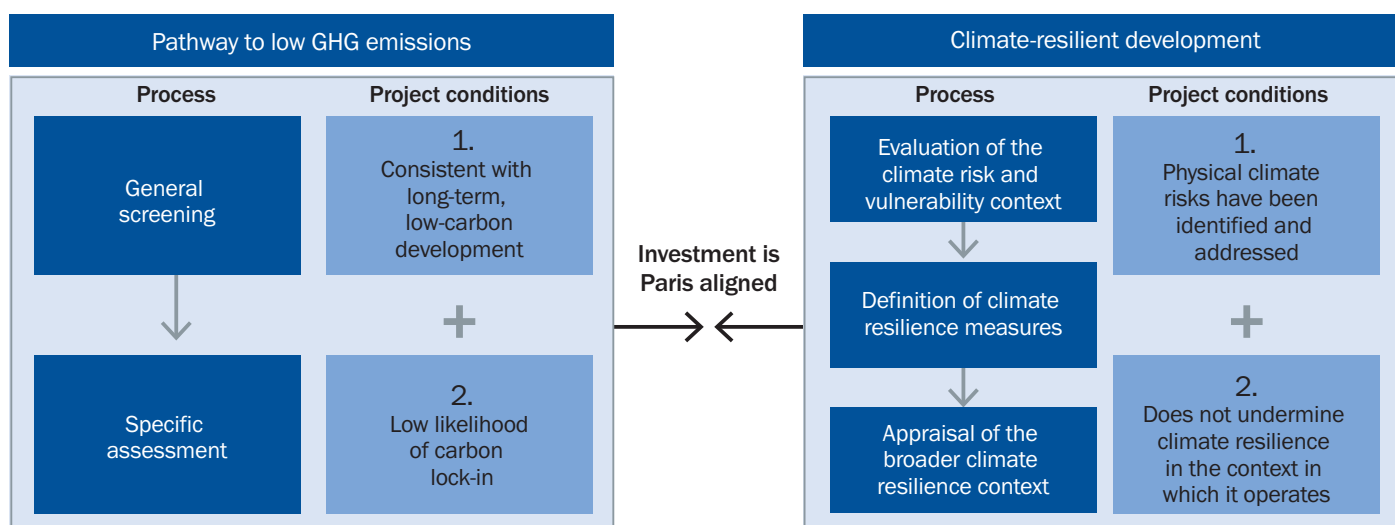


##### Directly financed investments

Alignment for climate change mitigation and adaptation entails demonstrating that each project meets the following four conditions (see figure below):

1. 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
2. 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
3. physical climate risks have been identified and addressed
4. its activities do not undermine climate resilience in the context in which the project operates.

#### The EBRD's Paris alignment approach – direct finance



<sup>1</sup> This commitment does not apply retrospectively to portfolio investments.

The EBRD has been undertaking alignment assessments on directly financed investments receiving Concept Review Memorandum (CRM) approval since June 2021. All new investments are now assessed for Paris alignment. In terms of signed projects as of 1 January 2023:

- 170 projects have received an alignment determination
- 14 projects have been assessed using a specific methodology to determine alignment with mitigation goals, meaning more in-depth work was required to ensure they were consistent with a low-carbon pathway
- 32 projects were flagged as having potentially material physical climate risk, with the most common climate hazards for these projects being flood, drought, extreme heat and increased water stress.

The following case study demonstrates how the Bank is structuring projects to ensure that they are Paris aligned.

#### Case study: Paris-aligned CHP project in Kazakhstan



Dangerously high levels of air pollution in Almaty during the cold winter months are directly attributable to the city's high reliance on coal in the heating and power sectors. The EBRD is supporting the decommissioning of the city's existing coal-fired combined heat and power (CHP) plant, CHP-2, and its conversion to a modern, high-efficiency natural gas plant that meets strict European Union (EU) emission standards. The investment will eliminate dust and particulate emissions, reduce NOx emissions by 86 per cent and cut CO<sub>2</sub> emissions by 55 per cent (over 2.8 million tonnes of CO<sub>2</sub>e per year).

Assessment of this project using the EBRD's Paris alignment approach confirmed that it was aligned. A low-carbon pathway was developed for the Almaty district heating system using advanced energy modelling software. This showed that the project was consistent with (and actively contributed to) a net-zero heating system by 2060 and demonstrated that the investment would accelerate decarbonisation within the sector.

#### Indirectly financed investments

The determination of Paris alignment for indirectly financed investments will, over time, move from a "transaction-based" approach (relying on an assessment of the EBRD's use of proceeds to finance specific sub-transactions) to a "counterparty-based" approach aimed at transforming the climate-related business practices of EBRD partner financial intermediaries (PFIs). This will rely on a counterparty assessment to understand climate-related business practices, followed by the development of a "transition plan", setting time-bound milestones for the PFI to ensure that they are credibly aligning their financial flows.

The EBRD will expect its clients to:

- **commit** to aligning their financial flows with the goals of the Paris Agreement and to preparing a transition plan
- **assess** the current level of their climate practices
- **prepare** a transition plan within two years of signing a financing agreement with the EBRD
- **implement** the transition plan, in line with the milestones and goals they have set out
- **disclose** core elements of the plan.

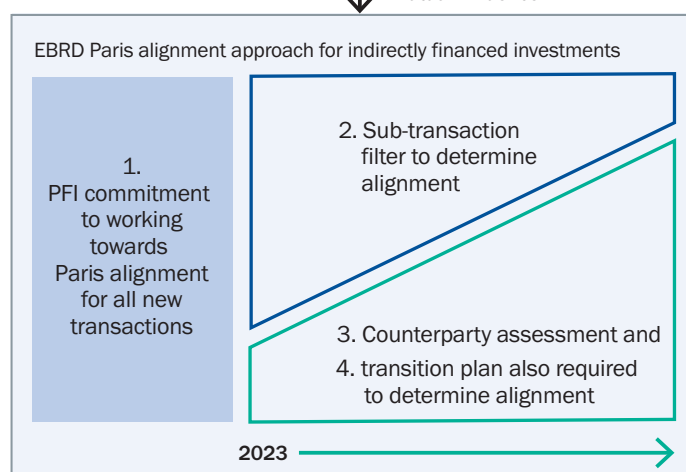
The EBRD will support clients in preparing and implementing transition plans. The Bank will help them assess their current climate practices and identify areas for improvement, to understand the elements on which their transition planning should focus. The EBRD's [Corporate Climate Governance Facility](#) will provide PFIs with support in specific areas, through dedicated advisory services or tools presenting best practices.

The Bank expects the majority of its new transactions to be assessed for Paris alignment under its counterparty-based approach within four years of the start of its Paris alignment commitment.

#### The EBRD's Paris alignment approach – indirect finance

Progress on financial-sector policy, regulation and best practice – influencing a climate-aware regulatory environment

↕ Mutual influence



## Case study: Supporting Paris alignment in Jordan's banking sector



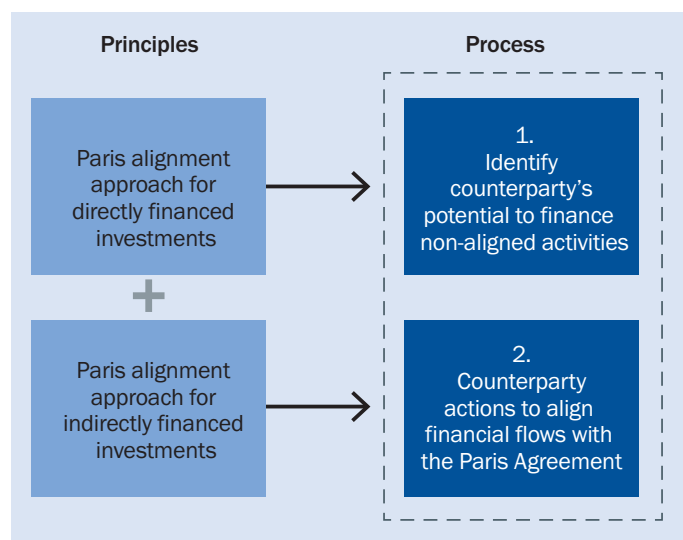
In Jordan, an EBRD loan of €25 million is supporting partner financial institution Bank al-Etihaad (BAE) in adopting a transition plan in line with the EBRD's Paris alignment methodology for indirect finance. This will outline how BAE will improve its business practices in relation to climate change and will cover operational aspects including governance, strategy, risk management, metrics and targets, and disclosure, ultimately leading to Paris-aligned financial flows.

### Other investment types

The alignment approaches to direct and indirect finance are expected to apply to most EBRD investments. However, for a small number of investment types, they are not applicable, as their specific features require elements of both. 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.

Where a counterparty's activities are high-emitting or potentially vulnerable to climate change, the EBRD will ensure actions or measures are in place so that activities are aligned with the Paris Agreement goals.

### The EBRD's Paris alignment approach – other investment types



Further methodological work under development includes (a) expanding guidance to other sectors and (b) a review of the way the Bank undertakes economic assessments for projects with high GHG emissions. This work will be reflected in the Bank's methodology and included in its publicly available approach.

As the Bank has been piloting its approach since 2021, there are already a clear set of emerging lessons, including: (a) the overall framework for Paris alignment is fit for purpose, but will need to reflect frontier market and regulatory practices as they emerge and develop; (b) guidance on sector-specific applications has been an important supplement to the methodology; (c) the role of external engagement and public consultation has improved the quality of the Bank's approach to Paris alignment; and (d) a complementary focus on climate policy to drive systemic change is crucial to the climate action that is required across EBRD regions.

### Paris alignment approach for internal EBRD activities

#### Own operations

**Buildings**  
Includes the EBRD HQ at 5 Bank Street (heating, electricity, waste production and water use), as well as Resident Offices in EBRD regions.

**Mobility**  
Includes EBRD employees' commutes, EBRD fleets and other business travel via plane and rail.

**Procurement**  
Includes the EBRD's procurement of works, goods and services.

**Treasury**  
Includes management of the EBRD's capital, retained earnings and borrowed funds.

**Retirement**  
Includes management of capital for retirement plans of EBRD employees.

**Governance**  
Includes policies and strategies to ensure Paris alignment in internal operations of the EBRD.



## Paris alignment of internal EBRD activities

The EBRD has established an approach for the Paris alignment of its internal activities. This covers operations related to buildings, mobility and procurement, treasury activities and the Bank's retirement plans. It also sets out governance arrangements for the implementation of the Bank's commitment to alignment, in line with its broader governance structure.

Key ongoing areas of work include:

- (a) A detailed appraisal of the Bank's GHG emissions linked to buildings, mobility and procurement (excluding GHG emissions associated with the EBRD's financing of investment projects) and the setting of targets for these GHG emissions in line with leading guidance. The Bank will provide an update on this area of work by the end of 2023.
- (b) Applying the approach to Paris alignment to the EBRD's treasury activities.
- (c) A climate change-related impact assessment of its retirement plans, engaging with fund managers to inform options for the Bank to invest in Paris-aligned funds and finalise a monitoring and reporting framework.

## Adaptation

The impacts of climate change on the EBRD regions are increasingly apparent, prompting resilience and adaptation to emerge as key items on the international agenda. As part of its response, the EBRD is systematically integrating climate risk assessments and adaptation measures into its delivery model.

To identify opportunities for policy engagement and investment in climate adaptation, the EBRD uses financial-sector and climate-information industry best practices to screen projects for exposure to physical climate risks. The process is also used to review the alignment of EBRD projects with the adaptation objectives of the Paris Agreement.

As a member of the joint MDB working group on climate finance tracking, the EBRD has participated in compiling a common methodology that harmonises approaches and informs the international financial sector.

With many emerging markets highly exposed to climate-related risks, the mobilisation of private companies in vulnerable regions is also instrumental in tackling the climate emergency. In 2021, the EBRD launched its [Corporate Climate Governance Facility](#) to enable clients to better assess physical climate risks.

## Climate Adaptation Action Plan

In 2022, the EBRD developed a [Climate Adaptation Action Plan](#) (CAAP) to catalyse transformation, investment and policy activity over the next three years. The CAAP states that:

1. The EBRD has made significant progress on mainstreaming climate adaptation across its operations and is committed to further embedding resilience considerations into its projects and practices.
2. The Bank will collaborate with partners to implement priority investments and interventions, including to increase private-sector participation. It will step up efforts to develop effective support in cooperation with bilateral and multilateral donors.
3. Adaptation investments will be increased, using direct and indirect channels of finance. Priority will be given to projects and programmes that maximise direct and indirect private-sector mobilisation, as well as those that benefit [nature and biodiversity](#).

### Case study: Climate resilience improvements at Moroccan ports



The EBRD is helping to improve the climate resilience of several ports along Morocco's Atlantic coastline by providing a €40 million loan to the Agence Nationale des Ports (ANP).

Construction and infrastructure improvements will enhance resilience against rising sea levels and extreme flooding caused by storm surges. The loan will be supplemented by an investment grant of US\$ 5.7 million (€5.4 million) from the Global Environment Facility (GEF).

A technical cooperation package funded by a US\$ 500,000 (€468,318) grant from the GEF and a US\$ 1 million (€936,637) grant from the EBRD will also support climate adaptation. A dedicated working group, comprising key stakeholders in the Moroccan port sector, will be established to promote climate-aware decision-making, including bolstering environmental management systems and standards.