European Bank
for Reconstruction and Development

Methodology to determine the green finance attribution of EBRD investments

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Section 1. Purpose and scope of the EBRD's green finance attribution methodology

1. Purpose and scope of the EBRD's green finance attribution methodology

Context

1.1. The European Bank for Reconstruction and Development (EBRD) has a mandate to "foster the transition towards open market-oriented economies".[1] The Bank recognises that open market-oriented economies must also be environmentally sustainable, and that climate change and the broader nature crisis are large-scale market failures. The EBRD is, therefore, committed to promoting "environmentally sound and sustainable development" in the full range of its activities.[2]

1.2. Accordingly, the Bank has made supporting the green economy transition one of its strategic priorities.[3] Central to the delivery of that strategic priority is a commitment to delivering an ambitious level of green finance investment.

1.3. Green finance is defined as financial flows that support activities in achieving goals linked to climate change (mitigation and adaptation), nature and other environmental issues.

Purpose and scope

1.4. This document sets out the methodology the EBRD uses to determine the attribution of green finance for Bank investments. The methodology determines whether or not EBRD finance should be classified as green, how to estimate the outcomes of green finance, and how to define monitoring plans for the delivery of those outcomes. The methodology applies to new EBRD investments only and sets out the Bank's process up to the point at which a project is signed.[4]

1.5. This methodology is split into four parts: the qualifying principles for green finance attribution (Section 2); the green finance attribution process (Section 3); specific guidance depending on the green impact objectives targeted (Section 4); and specific guidance depending on how the finance is structured (Section 5).

1.6. Supplementary information relevant to green finance attribution is set out in the annexes to this document: outcome indicators relevant to green finance (Annex 1) and the EBRD protocol for assessment of greenhouse gas (GHG) emissions (Annex 2).

1.7. This methodology for attributing green finance to EBRD investments provides a binary classification for green finance attribution. It does not assess an investment's systemic impact from a green perspective (covered by the Bank's approach to transition impact), its alignment with the mitigation and adaptation

1 See EBRD (1990).
2 Ibid.
3 See EBRD (2020).
4 EBRD investments classified as green require an attribution in line with this methodology. This methodology entered into force for projects receiving Concept Review Memorandum (CRM) approval or a New Transaction Notification Email (NTE) after 1 April 2025. Each time the methodology is amended, the updated methodology will apply to those projects receiving CRM approval or an NTE after the date on which the update becomes effective.

goals of the Paris Agreement (covered by the Bank's approach to Paris alignment), or the extent of climate-related financial risk (assessed as part of the Bank's credit process).

1.8. The methodology will be reviewed periodically and updated as required. Any material updates will be approved by the Bank's Operations Committee and subject to public consultation.

Methodological overview

1.9. The EBRD's approach to attributing green finance in its investments is grounded in the joint principles developed by the multilateral development banks (MDBs) and the International Development Finance Club (IDFC).[5] The Bank and the other MDBs jointly report climate finance consistent with the MDB approach for climate finance tracking.[6] The EBRD also seeks to adopt market-based green finance standards and taxonomies that are consistent with the joint principles, widely adopted and best practice. This includes the European Union (EU) Taxonomy for Sustainable Activities and the guidelines of the International Capital Market Association (ICMA), the Loan Market Association (LMA) and the Climate Bonds Initiative (CBI).[7] Where the external market standards provide limited guidance or require adjustment for country context, the Bank develops a tailored approach. The methodology indicates where reference works are used and where additional EBRD-specific guidance applies.

1.10. For any EBRD investment, green finance is expressed as a percentage of total EBRD finance. All EBRD investments fall into one of three categories:

a. The entire investment is eligible for green finance attribution, meaning 100 per cent of the investment is considered green finance.

b. Part of the investment is eligible for green finance attribution, meaning a proportion of the total EBRD finance is green finance. EBRD projects may consist of multiple components and activities and, in such cases, it is necessary to identify those components or activities that are eligible for green finance attribution and distinguish them from those that are not.

c. The investment is not eligible for green finance attribution.

1.11. EBRD investments refer to finance extended to projects from the EBRD's own account. Projects are defined in accordance with the EBRD's Environmental and Social Policy (ESP). EBRD projects may be part of a wider investment, of which only a portion may be financed by the EBRD and, therefore, considered an EBRD investment.[8]

5 See MDBs and IDFC (2023a and 2023b).

6 See MDBs (2022).

7 See European Commission (n.d.a), ICMA (2023), LMA (2023) and CBI (n.d.), respectively.

8 Projects are defined in accordance with the EBRD's ESP (EBRD, 2024a). The ESP states that a project is "the set of works, goods, services, business activities and/or investment set out in a financing agreement for which EBRD financing is sought by a client and approved by the EBRD Board of Directors or, if the Board of Directors has delegated approval authority, by Bank management". Depending on context, the project can also include any associated facilities, defined in the ESP as "facilities or activities that are not financed by the EBRD as part of the project but which, in the view of the 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 planned, constructed, expanded or carried out if the project did not exist."

1.12. The methodology is used during project appraisal, with green finance attributed at the investment signing date.[9] The green outcomes an investment is expected to deliver are assessed based on information available prior to signing. See Figure 1.1 for an overview of the methodology.

Figure 1.1. Overview of methodology to determine the green finance attribution of EBRD investments

Section 2: Green finance attribution qualifying principles

1.13. For green finance attribution, the Bank's investment will demonstrate consistency with two principles:

a. it delivers green outcomes, and

b. it is structured so as not to undermine other sustainability objectives.

Section 3: Green finance attribution process

1.14. For investments that demonstrate consistency with the qualifying principles, there are three steps to attributing green finance:

9 Green finance is attributed at the level of the financing facility within the investment, subject to the confirmation and verification of eligibility on the date the financing facility is signed. The attribution cannot exceed the level of EBRD finance.

a. *Step 1: Define the attribution route.* Attribution is based on either (i) an identified use of proceeds for investments that contribute to green impact objectives, or (ii) a commitment by the EBRD client to achieving pre-agreed green outcomes within a pre-defined time period as part of the investment structure.

b. *Step 2: Estimate expected green outcomes*. The green outcomes of a project are estimated. These include reductions in negative contributions to green impact objectives, increases in positive contributions, enhanced economic resilience to climate change or improvements to the overall environmental systems to which the investment contributes. The set of pre-defined outcome indicators is set out in Annex 1. A detailed approach to how the Bank undertakes GHG assessment, a core outcome indicator, is set out in Annex 2.

c. *Step 3: Set out a plan for monitoring implementation*. A plan is developed to track and report on attributed green finance and a project's main performance indicators. These monitoring indicators cover a project's most significant activities, outputs and expected green outcomes. Monitoring allows the Bank to assess the extent to which project implementation is in line with expectations at project signing.

Section 4: Specific guidance: green impact objectives and sector context

1.15. There are additional considerations depending on the green impact objective targeted. Specifically, investments supporting one or more of the following:

a. *Climate change mitigation:* Activities supporting these objectives should be consistent with the requirements of the MDB-IDFC Common Principles for Climate Mitigation Finance Tracking (the Common Mitigation Principles).[10] These include demonstrating consistency with the screening criteria and guidance set out in the Common Mitigation Principles "list of eligible activities". Further guidance on demonstrating consistency with the Common Mitigation Principles is provided for energy efficiency, buildings and transport sector projects to reflect the specificities of the economies in which the EBRD operates and the project types the Bank finances.

b. *Climate change adaptation*: Activities supporting these objectives should be consistent with the requirements of the MDB-IDFC Common Principles for Climate Change Adaptation Finance Tracking (the Common Adaptation Principles).[11] These use context-specific information to identify the type of eligible adaptation activities (either "adapted" or "enabling") and a linked green finance share. Further guidance on demonstrating consistency with the Common Adaptation Principles is provided for renewable energy, desalination and agricultural supply-chain projects.

c. *Nature objectives:* Activities supporting these objectives should be consistent with the requirements of the MDB Common Principles for Tracking Nature-positive Finance (the Common Nature-positive Principles),[12] or otherwise demonstrate how they enable the achievement of the goals of the Kunming-Montreal Global Biodiversity Framework (GBF).[13] This approach uses context-specific information to identify the type of eligible nature activities (either "nature-positive" or "nature mainstreaming") and a linked green finance share. Further guidance on evidence of nature finance is provided for sector-specific projects, including industrial pollution prevention and control, agriculture, wastewater treatment, circular economy and buildings.

10 See MDBs and IDFC (2023a).
11 See MDBs and IDFC (2023b).
12 See MDBs (2023).
13 See Conference of the Parties to the Convention on Biological Diversity (2022).

d. *Environmental objectives not otherwise captured by other categories:* Activities supporting these objectives should be consistent with the criteria set out in the EBRD's list of eligible activities (see Table 4.3). This covers financing for areas such as the provision of drinking water, resource efficiency and the prevention of air pollution.

Section 5: Specific guidance: financial structure

1.16. There are additional considerations depending on an investment's financial structure. Specifically:

a. *Indirectly financed investments through financial intermediaries* will demonstrate green use of proceeds as specified in financing agreements with clients.

b. *Trade and supply-chain financing operations*, which, due to their short-term characteristics, attribute green finance after approval, will demonstrate consistency with technical eligibility criteria based on documentation submitted for each sub-transaction.

c. *Bonds*, either green or sustainability-linked instruments (otherwise known as "labelled" bonds), or bonds with green-eligible uses of proceeds (also called "vanilla" or "unlabelled" bonds), will confirm that the financing structure is consistent with relevant market standards or identify green-eligible components.

d. *Equity financing* will identify specific green investments in the legal documentation (such as the shareholder agreement), rely on a contractual client commitment to invest in green projects, or achieve green outcomes during the anticipated equity holding period. Equity funds will either have thematic green strategies or, for generalist, unlabelled funds, rely on a commitment to deliver green investments.

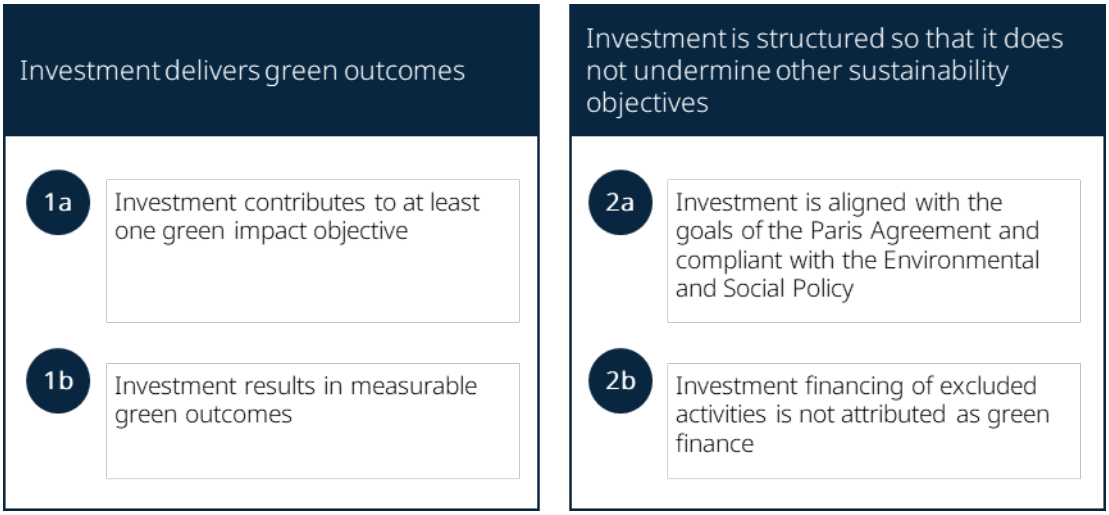
Section 2.
Green finance attribution qualifying principles

2. Green finance attribution qualifying principles

2.1. To classify an investment as green finance, the Bank ensures that it demonstrates consistency with two principles:

1. The investment delivers green outcomes. This requires it (a) to make a demonstrable contribution to at least one green impact objective and (b) to result in measurable green outcomes.
2. The investment is structured so that it does not undermine or do significant harm to other sustainability objectives. This requires it (a) to be determined as aligned with the mitigation and adaptation goals of the Paris Agreement, (b) to comply with the Bank's ESP and (c) not to finance certain activities that cannot be attributed as green finance due to their inherent characteristics.

Figure 2.1. Qualifying principles and associated criteria for green finance attribution



Principle 1: Investment delivers green outcomes

2.2. To ensure an investment meets the principle of delivering green outcomes, it must satisfy two criteria:

Criterion 1a: Investment contributes to at least one green impact objective

2.3. The investment must contribute to at least one green impact objective. These are:

a. climate change mitigation
b. climate change adaptation
c. nature objectives
d. other environmental objectives.

2.4. Under the Common Mitigation Principles, climate change mitigation is identified as finance that aims to reduce GHG emissions or increase carbon sequestration to limit global warming. Eligible activities:

a. result in negative, zero or very low-carbon emissions, consistent with the long-term temperature goal of the Paris Agreement[14]

b. contribute to the transition to a climate-neutral economy, or

c. are instrumental in enabling very-low-carbon performance or a substantial reduction in GHG emissions in other activities.

2.5. Under the Common Adaptation Principles, climate change adaptation finance is identified as finance that contributes to climate resilience and adaptation to the impacts of climate change. An activity qualifies as climate change adaptation if it is intended to reduce the vulnerability of human or natural assets or systems to the impacts of climate change and climate-related physical risks by maintaining or increasing adaptive capacity and resilience. Eligible activities:

a. are adapted to anticipate the impacts of climate change ("adapted" activities such as a road impacted by flooding that integrates resilience measures to ensure traffic flow during floods), or

b. enable adaptation in a wider system ("enabling" activities such as flood defence systems).

2.6. Under the Common Nature-positive Principles, nature finance is identified as finance that supports the implementation of the GBF. Eligible investments are those that support:

a. nature-positive activities: those that, beyond making a substantive contribution to nature, are expected to measurably improve the state of nature in relation to the extent, condition or significance of ecosystems (such as recovering coastal ecosystems through coral restoration), while not introducing significant environmental risks or impacts, or

b. nature-mainstreaming activities: those that make a substantive contribution to reducing the drivers of nature loss of land-, freshwater- or ocean-use change, pollution, the direct exploitation of natural resources, and invasive species, but do not directly result in a nature-positive outcome (such as a wastewater treatment plant or collection network that reduces water pollution).

2.7. An investment may have "other environmental benefits" if it supports the delivery of green impact objectives (not otherwise covered by paragraphs 2.4 to 2.6) in the areas of:

a. expansion and efficiency of drinking water supply

b. resource efficiency and transition to a circular economy, or

c. air pollution prevention and control.

Criterion 1b: Investment results in measurable green outcomes

2.8. An associated green outcome will be identified for most green investments. This will use a set of pre-defined metrics, such as GHG emissions reduction, increased water availability or recycled waste (see Annex 1 for the full suite of metrics the EBRD uses and Annex 2 for the Bank's approach to GHG assessment).

2.9. In exceptional cases, certain investment types do not require a quantitative estimate of outcomes to be eligible for green finance attribution. For such investments, in the absence of specific estimates or

14 The long-term temperature goal of the Paris Agreement is defined as holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.

proxies, a qualitative narrative will be identified. Specific examples of investments that do not require a quantitative estimate of outcomes include:

a. those with EBRD finance of €5 million or less

b. projects in sectors that contribute directly to the low-carbon transition, where the calculation of outcomes upstream or downstream to the project is not possible,[15] and

c. projects where it is not possible to increase a system's green outcomes any further.[16]

2.10. Where the green outcome is based on a reduction against a baseline, the reduction should be determined to be substantial, typically by meeting an appropriate green performance benchmark. The following standards may be relevant to identifying appropriate benchmarks, depending on the project:

a. the substantial contribution technical eligibility criteria of the EU Taxonomy

b. for brownfield projects, the achievement of EU performance standards, such as Best Available Techniques (BAT),[17] in non-EU countries where local environmental regulations are less stringent

c. internationally accepted market green standards or guidelines, such as those of the World Bank Group, the World Business Council for Sustainable Development, the Science Based Targets initiative or the Climate Bonds Initiative

d. where relevant sectoral or market benchmarks do not exist, projects can demonstrate that a reduction in negative impacts to be substantial if it exceeds 15 per cent of the pre-investment level.

2.11. Where an investment component is assessed for green finance eligibility, the entire project should demonstrate a positive overall green outcome for the targeted green impact objective. Where there is a potential for "non-green" components to affect the overall positive outcome, the assessment should be demonstrated by:

a. identifying and measuring outcomes relevant to the green impact objective targeted (for example, GHG emissions for climate mitigation projects or water volumes for a water availability climate adaptation project)

b. assessing the relevant and material net impacts of the entire project relevant to the green impact objective,[18] and

c. comparing the green outcomes against an appropriate baseline, consistent with international financial institution (IFI) methodologies.[19]

15 This is limited to projects that support the production of components, equipment, services or infrastructure dedicated exclusively to use in renewable energy, energy-efficiency improvement or other low-carbon technologies; the development and manufacturing of green products or environmental technologies that support green outcomes; and the production of components exclusively for electric vehicles.

16 For example, the addition of renewable energy generation capacity to a system with very low-carbon electricity, where it is sufficient to demonstrate no net increase in the emissions intensity of the system.

17 See European Commission (n.d.b).

18 For example, in relation to GHG emissions, this means a project's net Scope 1 and 2 emissions, plus those of its associated facilities, as well as Scope 3 emissions where material and relevant (for example, airport expansion projects that result in a significant GHG emissions increase from air traffic are not eligible for the attribution of mitigation finance). An equivalent approach should be taken when assessing other environmental impacts.

19 See United Nations Framework Convention on Climate Change (n.d.) for the list of methodologies, as updated from time to time.

Principle 2: Investment is structured so that it does not undermine other sustainability objectives

2.12. To ensure that an investment does not undermine or do significant harm to other sustainability objectives, it must satisfy two criteria:

Criterion 2a: Alignment with the goals of the Paris Agreement and compliance with the EBRD ESP

2.13. All EBRD investments require, prior to signing, a determination of alignment with the mitigation and adaption goals of the Paris Agreement using the Bank's Methodology to determine the Paris Agreement alignment of EBRD investments.[20]

2.14. The ESP establishes the framework for translating into practice the EBRD's mandate to promote environmentally sound and sustainable development in the full range of its activities.[21] It includes Environmental and Social Requirements (ESRs) that all projects financed by the EBRD must meet.[22] Compliance with the ESRs manages the risk of environmental and social harm beyond the identified green impact objectives of the project, ensuring that such risks are appropriately mitigated and a "do-no-significant-harm" outcome is achieved.[23]

Criterion 2b: Investments that finance excluded activities are not attributed as green finance

2.15. If the project finances excluded activities, the EBRD investment is not eligible for any green finance attribution, regardless of the EBRD use of proceeds. Excluded activities are:

a. greenfield construction or the lifetime extension of large-scale industrial installations involving technologies that either increase the use of thermal coal or fuel oil, or lock the installation into the use of thermal coal or fuel oil[24]

b. fossil-fuel extraction[25] and associated facilities dedicated to fossil-fuel transportation[26]

c. vessels with open-loop scrubbers (allowing for SO_x emissions into the sea in liquid form) due to the potential for significant seawater pollution and the risk to marine biodiversity

d. non-renewable marine extractive industries (offshore oil and gas and deep-sea mining)

e. the use of substances banned under EU regulation on fluorinated gases, as these result in a material environmental impact by the project.[27]

20 See EBRD (2024b), as amended from time to time.

21 See EBRD (2024a).

22 For the purposes of green finance attribution, this criterion is also met in cases where the EBRD Board agrees to a derogation to the ESP due to specific project circumstances. The impact of any such derogation should be noted in the presentation of the green finance attribution, however.

23 This includes the ESR 6 objective to safeguard and, when appropriate, enhance ecosystems and the biodiversity they support, to contribute to achieving the overall goals and targets of the Kunming-Montreal Global Biodiversity Framework.

24 Large-scale industrial installations are defined in accordance with the EU Industrial Emissions Directive BAT reference documents (see European Commission [n.d.]).

25 Green finance attribution is allowable for activities dedicated to (a) reducing gas flaring (provided that gas flaring is not prohibited by national law) and associated petroleum gas utilisation; or (b) reducing methane leaks, which can qualify for green finance attribution where the project is part of a clear plan to minimise methane leakages from the relevant assets.

26 Rail, road, pipeline or maritime transportation of fossil fuels. Transportation is distinguished from distribution, which involves the supply of fuels to final consumers (for example, gas distribution networks for residential heating).

27 See European Union (2014).

2.16. Investments are not eligible for green finance attribution, to the extent that they finance:

a. project components required to satisfy ESP compliance in greenfield or capacity-increase projects consisting of environmental protection measures required under applicable law and regulations as determined by the ESP[28]

b. project components required to satisfy ESP compliance consisting of measures to mitigate or offset biodiversity impacts to achieve no net loss of biodiversity or a net gain where there are impacts on critical habitats

c. vehicles and transport infrastructure that are dedicated to transporting fossil fuels, or

d. the production of single-use plastic products for consumer applications with no potential for recycling or reuse.[29]

2.17. Investments supporting the following activities are not eligible for climate mitigation finance (per the Common Mitigation Principles):

a. Upstream and midstream activities in the fossil-fuel industry. Upstream activities involve exploration or the production of fossil fuels, while midstream activities include natural gas processing, storage, transportation, liquefaction and regasification, and crude oil refining. Activities that are otherwise eligible, but support these activities, such as carbon capture and utilisation for enhanced oil recovery, are also not eligible. Exceptions are the use of waste gas and the reduction of fugitive emissions from existing gas infrastructure.

b. Activities that lead directly or (where feasible to assess) indirectly to deforestation, other than small-scale tree clearance

28 This is typically EU environmental principles, practices and substantive standards, where these can be applied at project level regardless of their geographical location. When host-country regulations differ from EU substantive environmental standards, projects will be required to meet the more stringent standard.

29 See European Union (2019). The products that are excluded from green finance attribution for relevant investments are defined in parts A and B of the annex to the directive. This does not include single-use plastics for medical purposes. Projects that fall under the exceptions of the directive will be considered on a case-by-case basis.

Section 3. Green finance attribution process

3. Green finance attribution process

3.1. If investments are consistent with the principles and associated criteria in Section 2, there are three steps to attributing green finance:

a. Define the attribution route.

b. Estimate expected green outcomes.

c. Set out a plan for monitoring implementation.

Step 1: Define the attribution route

3.2. The Bank assesses eligibility for green finance attribution through two routes (see Figure 3.1):

a. *Route 1: defined green use of proceeds*. This involves quantifying the green finance component of the proposed investment. This will either be through capital expenditures (or other defined investments or expenditures) within the project boundary, or capital expenditure (or other defined investments or expenditures) linked to the Bank's financing. Dedicated green use of proceeds in EBRD investments can consist of a standalone project, multiple standalone projects under a larger programme, a component of a standalone project, co-financed projects through risk-sharing frameworks, or a programme financed through financial intermediaries, on which there is further guidance in Section 5. Where only a portion of the proceeds is allocated to green activities, proceeds are disaggregated into green and non-green. This is the default approach for all projects that involve a defined use of proceeds.

b. *Route 2: a client commitment to delivering green outcomes*. Where the EBRD is providing general corporate-purpose financing, green financing may be attributed where a client commits to actions that deliver green outcomes as part of the structure of the transaction. This will be through a contractual client commitment to either target green outcomes or implement green practices in its business model within the term of the EBRD's investment.

3.3. For each investment, only one attribution route can be defined, except where an investment includes multiple financing facilities. In such cases, a different route may be chosen for each one.

3.4. For both routes, a "green finance share" will be estimated. In its external reporting of green finance, the Bank will report volumes and green outcomes associated with the two attribution routes separately. If an investment component addresses multiple green impact objectives, to avoid double counting, green finance attribution will not be additive. The green finance attribution for an investment may not exceed 100 per cent.

3.5. The Bank will also separately estimate the mobilised finance associated with its green finance. It will do so by estimating the green finance attribution share of EBRD finance at approval and then applying this to the amount of finance mobilised from third parties (for example, if the project is attributed 20 per cent green finance, 20 per cent of estimated mobilised finance will also be green).

Qualifying activities

3.6. Certain activities universally considered to contribute to the achievement of green impact objectives are eligible for 100 per cent green finance attribution. These activities are identified using "positive lists" and accompanying eligibility criteria. These lists used are as follows:

a. for climate change mitigation, as set out in the Common Mitigation Principles[30]

b. for nature finance, as set out in a draft taxonomy currently being piloted by the EBRD, based on the principles set out in Section 4[31]

c. for other environmental activities, as set out in the list of activities that contribute to environmental outcomes in Section 4 (see Table 4.3).

3.7. For the green impact objective of climate adaptation and certain nature finance activities, attribution is context specific, meaning that a project-level assessment is necessary to confirm green finance attribution. These assessments rely on a process that confirms the context necessary to attribute green finance.

Figure 3.1. Attribution routes for green finance

Route 1: defined green use of proceeds

3.8. Investments that apply the defined green use-of-proceeds attribution route typically relate to capital expenditures with a clearly defined project boundary and set of components. Where the investment includes these types of use of proceeds, route 1 should be used.

3.9. The green use-of-proceeds approach can also be used in the following circumstances:

a. general corporate-purpose financing where there are: (i) legal provisions or conditions specifying the application of EBRD proceeds to the implementation of eligible green activities (identified with a breakdown of the investment costs for eligible green components); and (ii) a client commitment to an implementation timeline for those investments falling within the tenor of the EBRD investment

b. working capital or operational expenditures where there are legal provisions or conditions specifying that EBRD proceeds should be applied to green products, commodities or raw materials

30 See MDBs and IDFC (2023a).

31 The Bank will publish this draft taxonomy, guided by MDB discussions, in due course following the pilot.

c. where proceeds are used for the retroactive financing of projects, and the EBRD was involved in or otherwise influenced the design and development of those projects, provided that the project lifetime falls at least within the term of the EBRD's investment, or longer

d. refinancing or acquisition finance for building projects (further guidance is set out in paragraph 4.15)

e. refinancing, if the project does not relate to projects or project components originally financed by the EBRD and:

   i. is structured as a green bond, for which further guidance is set out in Section 5

   ii. the project has not been completed at the time of Board approval, or

   iii. where all of the following criteria are met: (i) the EBRD was involved from the initial stage of the project; (ii) the existing financing has been covered by the client through equity or a third-party short-term bridge loan; and (iii) Board approval took place within 12 months of completing construction.[32]

Route 2: a client commitment to delivering green outcomes

3.10. Where financial structures do not provide a clear link to the financing or implementation of eligible green activities, green finance attribution can be based on a client commitment. This approach includes a diverse set of financing mechanisms, whereby a project is structured to ensure the achievement of an outcome pre-agreed by the client.

3.11. These types of finance are often associated with "transition finance" mechanisms designed to support the delivery of actions committed to under transition plans or green targets. The green outcomes targeted may form part of a wider set of actions in a client's published sustainability strategy or transition plan, but the use of this route is limited to those actions that result in measurable green outcomes.

3.12. A client commitment attribution can be linked to one of two types of commitment:

a. A commitment to green outcomes and targets at the corporate or portfolio level. This includes attribution for labelled instruments such as sustainability-linked bonds (SLBs), sustainability linked-loans (SLLs) and sustainability-linked Schuldscheine, but is not limited to these instruments and can be applied in other cases, such as equity or equity funds.

b. A commitment to improve or extend the implementation of qualifying green finance practices across its business model. This includes practices identified on one of the positive lists, referenced in paragraph 3.6, for green finance attribution.

3.13. Investments eligible for client commitment attribution should demonstrate:

a. that the investment relates to outcomes that the EBRD, either individually or as a co-investor, plays a role in incentivising or enabling through the structure of the investment

b. that the outcomes will be delivered within the loan tenor (or within the anticipated investment-holding period for equity transactions), and

32 The EBRD's financial restructuring investments are not eligible for green finance attribution under the defined use of proceeds route, but may qualify under route 2, the client commitment attribution route.

c. if the investment is marketed to meet a market standard for sustainable finance (such as SLBs or SLLs), that it is structured so as to be consistent with good international practice.[33]

Commitment to green outcomes and targets at a corporate or portfolio level

3.14. Investments structured around a client's commitment to achieving predefined green impact objectives are typically derived from the client's green-related strategy (the client may be a bond issuer, a borrower, or an investee through direct or fund equity investments).[34]

3.15. In addition to the general criteria listed in paragraph 3.13, green attribution is based on additional criteria linked to the application of external market standards.[35] These criteria are:

a. the relevance of green outcomes targeted

b. the level of ambition of green outcomes targeted, and

c. the client's capacity to deliver on its commitments.

3.16. The relevance of green outcomes targeted (through key performance indicators [KPIs] in the case of SLLs and SLBs) will be assessed to ensure they are:

a. relevant, core and material to the client's environmental impacts[36]

b. consistent with the client's overall green-related strategy, where such a strategy is available, and

c. applicable over the lifetime of the project (the inclusion of interim targets during the project lifetime is good practice, but not required for green finance attribution.

3.17. The level of ambition of green outcomes targeted (through sustainability performance targets [SPTs] in the case of SLLs and SLBs) will be assessed to ensure it is:

a. consistent with science-based scenarios or demonstrates relevance to country, regional, sectoral or international targets and policy objectives,[37] and

b. where such benchmarks do not exist, otherwise ambitious in the context of relevant benchmarks for the client's past and current performance, its operations, peers and sector.

33 This will be informed by sector and industry standards, including the Sustainability-Linked Bond Principles (ICMA, 2023) and the Sustainability-Linked Loan Principles (LMA, 2023).

34 A client's activities may extend beyond the EBRD's regions. In such cases, the client's commitments should apply to its operations in the EBRD regions.

35 These criteria for green attribution are informed by the ICMA's Sustainability-Linked Bond Principles and the LMA's Sustainability-Linked Loan Principles, drawing specifically on those principles applicable across different types of financial instrument and client, including the selection of key performance indicators (KPIs) and calibration of SPTs. The structure of the SLLs and SLBs should also adhere to the principles on bond or loan pricing characteristics and reporting and verification requirements to qualify for the Bank's participation. Further guidance on the attribution of green finance for SLLs and SLBs can be found in Section 5.

36 This includes the ICMA registry of SLB KPIs and peer benchmarking.

37 For climate mitigation, this means being consistent with achieving the mitigation objectives of the Paris Agreement, notably, the goal 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. For climate adaptation and other environmental objectives, SPTs/KPIs should draw on country or regional targets and policy objectives. For nature, this means being consistent with achieving the objectives of the Kunming-Montreal Global Biodiversity Framework or science-based targets for nature, as developed by the Science Based Targets Network, where relevant (see SBTN, n.d.).

3.18. The demonstration of client capacity to deliver on commitments will ensure at least one of the following is in place:

a. annual public disclosure of outcomes targeted and ongoing performance to ensure transparency against the stated goals of the instrument

b. EBRD influence over the client's implementation of actions to deliver the outcomes (for example, through board representation or relevant legal commitments)

c. a material financial incentive to achieve the green outcomes targeted

d. a strong client track record of achieving progress on targeted outcomes, or

e. an available action plan for achieving the targeted green outcomes.[38]

3.19. Green finance attribution will take one of three routes:

a. 100 per cent green finance will be attributed for investments where the proposed green outcome(s) demonstrates relevance, ambition and a client capacity to implement, per the requirements of paragraph 3.18.

b. 50 per cent green finance will be attributed for investments where the proposed green outcome(s) meets either the requirements for relevance of paragraph 3.16 or ambition in paragraph 3.17, but does not fulfil both, and the client demonstrates the capacity to implement.

c. No green finance will be attributed for investments where proposed green outcomes are not relevant or material and the client does not demonstrate the capacity to deliver.

3.20. An investment may present a package of outcomes that also targets social objectives in addition to green finance objectives. The inclusion, or not, of social KPIs will have no implication for green finance attribution. This approach also applies in the case where secondary KPIs are included, but the requirements for materiality and ambition are already demonstrated through core KPIs.

Commitment to implementing green practices

3.21. A client may commit to improving or extending the implementation of qualifying green finance practices across its business model. This is of particular relevance when clients are not in a position to set comprehensive environmental targets, but can identify practices, investments or activities with green outcomes.

3.22. In addition to the criteria in paragraph 3.13, the transaction is eligible for green finance attribution when it meets all of the following criteria:

a. The practices or activities to be implemented are on one of the "positive lists" referenced in paragraph 3.6 for green finance attribution and meet all associated criteria (for climate change mitigation, nature activities and other environmental activities). For adaptation activities, which are context specific, a separate approach consistent with the process-based assessment should be followed in line with the specific guidance of Section 4 (paragraphs 4.30 to 4.35).

b. The practices are relevant in the context of the client's business model or stakeholders of influence, such that the project will reduce a material negative environmental impact of the client. The assessment of relevance should be conducted in line with the requirements of paragraph 3.16.

c. The client has the capacity to ensure that the commitments will be delivered per the requirements in paragraph 3.18.

38 Actions do not need to be commensurate in scale to EBRD finance or the total project value.

3.23. Green finance attribution can be based on:

a. The share of the client's business model impacted by the commitment to implement green practices.[39] The share can be based on a specific subset of the business operations or regional activities, where these are material to the client's overall business model.[40] For example, a commitment to increase the proportion of green loans in a financial institution's annual business volume to 20 per cent would be attributed as 20 per cent green finance.

b. The proportion of the client's relevant environmental impacts that will be reduced or managed through the implementation of the green practices. Where relevant, a specific environmental impact may be the focus of attribution, such as electricity use or volume of plastic packaging, provided that the impact is material to the client's overall environmental impacts. For example, the replacement of the use of fossil fuels with biofuels with low lifecycle GHG emissions for 30 per cent of transport operations would be attributed as 30 per cent green finance.

Step 2: Estimate expected green outcomes

3.24. During the EBRD's appraisal and prior to approval, a project's green outcomes will be estimated. The estimation is an assessment of expected outcomes, based on known project characteristics at the time of the project appraisal.

3.25. For investments focused on reducing negative environmental impacts, the specific indicators should be taken from the list in Annex 1. Using these indicators ensures consistency, allows for aggregation and subsequent reporting, and facilitates an assessment against external benchmarks. The estimation methodology requires the definition of a representative year, the project boundary and an appropriate baseline. See Annex 1 for the general calculation approach to estimating physical outcomes.[41] A particularly important indicator for climate mitigation projects is GHG emissions. See Annex 2 for the EBRD Protocol for Assessment of Greenhouse Gas Emissions, which aligns with the GHG Protocol.[42]

3.26. Climate adaptation projects require the quantification of a climate resilience outcome (CRO).[43] In exceptional cases where a lack of reliable data, models or estimation approaches makes quantifying the CROs either not meaningful or technically infeasible, adaptation finance may be attributed based on a qualitative description of expected results, ahead of the determination of a quantified CRO or equivalent result.[44] The calculation of a CRO similarly requires the determination of an appropriate

39 The share of implementation should be measured with appropriate proxy values, such as revenues or operating costs.

40 This is specifically relevant to clients whose business model is not fully within the EBRD's regions, where materiality would be based on the activities in the EBRD's regions and the attribution based on implementation of practices in the EBRD's regions. In addition, where a client has multiple business lines or subsidiaries, this is relevant where only one line or subsidiary is targeted through a transaction.

41 Beyond the specific cases in paragraph 2.9, some projects do not require estimation, where the general green outcomes are clear, but the specific quantification is complex and resource intensive. An example is projects in food supply chains, where measuring GHG impacts associated with sustainable farming practices is typically complex due to challenges of data collection. In these cases where practices have established a strong track record of delivering green outcomes or relevant research has been conducted to confirm positive outcomes, projects may focus on relevant implementation proxies.

42 See GHG Protocol (n.d.).

43 A CRO is defined as an estimate of the value generated by making a project more resilient to the impacts of climate change.

44 All other steps of the approach must still be followed. When necessary, if data can be provided after signing based on the project's agreed activities, the inputs needed to calculate a CRO should be included in the monitoring plan and the CRO calculated accordingly. Otherwise, an alternative result, such as the number of beneficiaries, can be quantified.

baseline and project boundary. Annex 1 provides further details on the approach for determining and reporting CROs.

3.27. The full net outcome of a project is estimated and not pro-rated for the EBRD share of financing, The purpose of the estimation and subsequent reporting in this way is to communicate the green outcome of the projects the EBRD finances, rather than solely the green outcome of EBRD finance.[45]

Step 3: Set out a plan for monitoring implementation

3.28. A green project monitoring plan (GPMP) will be set out in the investment's legal documentation. The GPMP specifies data to be reported by clients for monitoring the project's green outcomes during implementation. Monitoring project outcomes enables the EBRD to assess whether reported results are in line with the assessments made as part of project preparation.

3.29. The GPMP will include the most important information necessary to define the project's expected green outcomes, as determined in Step 2. This can include project inputs (financial, material and other), outputs (for example, physical assets, technologies and processes) and green outcomes (for example, energy savings or carbon reductions against the baseline, quantities of resources, or materials processed).

3.30. The GPMP also defines the channel through which the client will provide the information to the EBRD (such as an annual environmental and social report). In addition, it sets out the timeframe and frequency of reporting, along with critical assumptions for assessing the results.

3.31. For projects with EBRD finance of €5 million or less, there is no requirement to include outcome indicators in the GPMP.

45 This is informed by the IFI methodology on GHG accounting (UNFCCC, n.d.), with the logic extended to all environmental impacts. Green outcomes estimated for the same green eligible investments financed by the EBRD through different types of financial instrument or project will not be double counted. The exception to this is green and sustainable bonds with defined use of proceeds, for which outcomes will need to be pro-rated to the EBRD's participation, in line with the reporting requirements of the Green Bond Principles.

Section 4. Specific guidance: green impact objectives and sector context

4. Specific guidance: green impact objectives and sector context

4.1. All investments to which green finance is attributed will be consistent with the principles in Section 2 and the process outlined in Section 3. Set out below is specific guidance on green finance attribution depending on the green impact objective targeted: climate change mitigation, climate change adaptation, nature objectives, and other environmental objectives.

Approach to climate change mitigation activities

4.2. The EBRD uses the definition and classification of climate change mitigation activities set out in the Common Mitigation Principles.[46]

4.3. The Common Mitigation Principles set out the three types of eligible climate mitigation activity that provide a route to green finance attribution:

a. Enabling activities. These activities are instrumental in enabling other activities to make a substantial contribution to climate change mitigation (such as the manufacture of very-low-emission technologies).

b. Transitional activities. These are part of GHG-emitting systems, but are important and contribute to the transition towards low-GHG development (such as energy efficiency improvements in manufacturing processes that directly or indirectly use fossil fuels).[47]

c. Negative or very-low-emission activities. These result in negative, zero or very low GHG emissions and are consistent with the long-term temperature goals of the Paris Agreement (such as carbon sequestration in land use or renewable energy production).

4.4. The Common Mitigation Principles set out:

a. a definition of the scope of application covering boundaries; exclusions (captured in criterion 2b of Section 2); and the approach to "greenfield" and "brownfield "activities[48]

b. overarching approaches of conservativeness,[49] granularity and complementarity. These are captured in Section 3 in the guidance for estimating green outcomes

46 See MDBs and IDFC (2023).

47 Transitional and enabling activities should neither hamper the development and deployment of very-low-carbon alternatives nor lead to a lock-in of carbon-intensive assets inconsistent with the long-term decarbonisation goal. There may be cases where activities, despite reducing GHG emissions in the short term, risk locking in emissive technologies over long periods of time and should consequently not be eligible for climate mitigation finance.

48 Greenfield activities relate to projects on new sites or in existing facilities where the majority of a plant and equipment is new and where, in the case of projects in existing facilities, all the critical items of equipment are decommissioned, or projects that primarily acquire and deploy new appliances or equipment. Brownfield activities relate to projects that modify existing facilities, equipment, appliances, systems or processes. Where there is gradual replacement or retrofitting of a whole facility dedicated to the same activity over a longer period of time, this may be considered a series of brownfield projects.

49 The Common Mitigation Principles say that where data are unavailable or there are uncertainties about the data, the principle of conservativeness, where it is preferable to under-report rather than over-report climate change mitigation finance, should be followed.

c. a list of eligible activities and accompanying criteria (the "positive list") for the sectors of energy, mining and metal production, manufacturing, agriculture, forestry, land use and fisheries, water supply and wastewater, solid waste management, transport, buildings, public installation and end-use energy efficiency, information and communications technology (ICT) and digital technologies, research development and innovation, and cross-sectoral activities

d. other guidance relating to national context, GHG assessment and baseline definition, energy and resource efficiency, mixed greenfield and brownfield projects, use of carbon offsets, renewable energy and types of financing instrument.

4.5. Investments that demonstrate compliance with these criteria will be attributed as 100 per cent climate mitigation finance. The Common Mitigation Principles also recognise that institutions may set further guidance on application to reflect individual mandates, specific circumstances and other market standards or taxonomies. Accordingly, set out below is further sector guidance for energy efficiency projects, buildings and transport. These detail the EBRD's specific provisions for certain project categories and should be read in conjunction with the Common Mitigation Principles. Consistency with the Common Mitigation Principles and any accompanying EBRD-specific criteria will need to be demonstrated for projects where additional guidance is provided.

Sector-specific guidance

Energy efficiency

4.6. In energy efficiency investments, defining the boundary between increasing production and reducing energy consumption is central to attributing green finance. This additional guidance builds on the content on greenfield and brownfield activities in the Common Mitigation Principles to specify the performance requirements the EBRD expects for these two types of activity.

4.7. For greenfield investments to be attributed as climate mitigation finance, new technologies or processes must enable substantially higher systems efficiency than those normally used in greenfield projects.[50]

4.8. For brownfield energy efficiency investments to be attributed as climate mitigation finance, in addition to the criteria set out in the Common Mitigation Principles, the following is required:

- Existing technologies or equipment are replaced well before the end of their lifetimes with new technologies that are substantially more efficient. The baseline scenario for the project must demonstrate that the existing installation would continue to operate for at least another three to seven years.[51] Only if technically and economically feasible, the baseline scenario may include maintenance programmes and replacement of obsolete equipment.
- New technologies are consistent with best practice in industry (EU BAT or other internationally recognised standards).

4.9. In some investments, there may be both greenfield and brownfield components (for example, a capacity increase of an existing industrial facility). Where there is physical expansion of an existing site, a significant increase in output capacity or a significant extension of the expected life of a site, the activity should be disaggregated into brownfield and greenfield components. The components

50 See MDBs and IDFC (2023) for further guidance on efficient greenfield manufacturing, provided under activity 3.3 of the list of eligible activities.

51 Typically, three years for industrial equipment, five years for power sector and seven years for infrastructure sector investments.

corresponding to the increase or extension are greenfield development, so should meet defined criteria for greenfield activities. The proportion of the project that is greenfield is defined, in order of preference, by:

a. comparing the share of investment costs for capacity expansion as a proportion of the total project investment (for example, in a €50 million mixed investment plan, where €20 million is for new production lines and €30 million is for the refurbishment of existing lines, the project would be 40 per cent greenfield), or

b. comparing the ratio of post-investment output to pre-investment output (for example, a mixed investment plan resulting in a doubling of output would be 50 per cent greenfield).

Electrification

4.10. There may be cases where certain activities result in a near-term increase in GHG emissions, despite being part of a widely recognised decarbonisation pathway. Examples include electrification solutions such as heat pumps or electric vehicles in countries where electrical grids are heavily dependent on fossil fuels. Such projects are still eligible for climate mitigation financing and need not result in a net reduction in GHG emissions, net energy consumption or resource consumption, provided that the following can be demonstrated: (1) the electrification solution is part of a widely recognised pathway to decarbonisation; and (2) there are policies, commitments, or other strategies supporting the long-term decarbonisation of the grid to which the electrification solution is connected.

Buildings

4.11. The allocation of climate mitigation finance for buildings will depend on the location of the project, whether the building is new or existing, and the type of financing provided (see Figure 4.1 for EBRD-specific criteria). This guidance is based on a review of national and international performance standards, regulations and market development in the economies where the EBRD invests. Where a relevant single or set of the EBRD-specific criteria are met for new or existing buildings, the investment will be attributed as 100 per cent climate mitigation finance, unless otherwise stated. Notwithstanding this and consistent with paragraph 2.11, climate mitigation finance will not be allocated for investments where the use of the building undermines climate mitigation objectives.

4.12. Green finance allocation will be 100 per cent to climate mitigation when buildings are certified at acceptable levels by Leadership in Energy and Environmental Design (LEED), the Building Research Establishment Environmental Assessment Methodology (BREEAM), the German Sustainable Building Council (DGNB), Excellence in Design for Greater Efficiencies (EDGE) or comparable voluntary green certification schemes (including sector-specific schemes).[52] Acceptable levels for each scheme are listed in Figure 4.1.

4.13. As an alternative method to green building certification schemes, the EBRD may rely on green finance eligibility criteria derived from national regulation, such as energy performance certificate (EPC) and nearly zero-energy building (nZEB) standards. If suitable national regulations are not available,

52 These certifications are selected for their widespread market adoption and focus on delivering green outcomes. The project will also be allocated 40 per cent for other environmental areas because of the other resource efficiencies, particularly water use, that these certifications deliver (except in cases where the green credentials of a project focus on limiting energy demand and integrating renewable energy technologies). Climate adaptation finance may also be applicable and should be assessed in line with the approach to these activities.

comparison with other countries where such regulation does exist will be used.[53] In such cases, green finance eligibility will be based on defined minimum performance requirements for the building envelope and related services, if applicable.

4.14. Proceeds allocated to the costs of land beyond the associated grounds of the property are not eligible for climate mitigation finance unless they are integral to delivering climate mitigation outcomes.

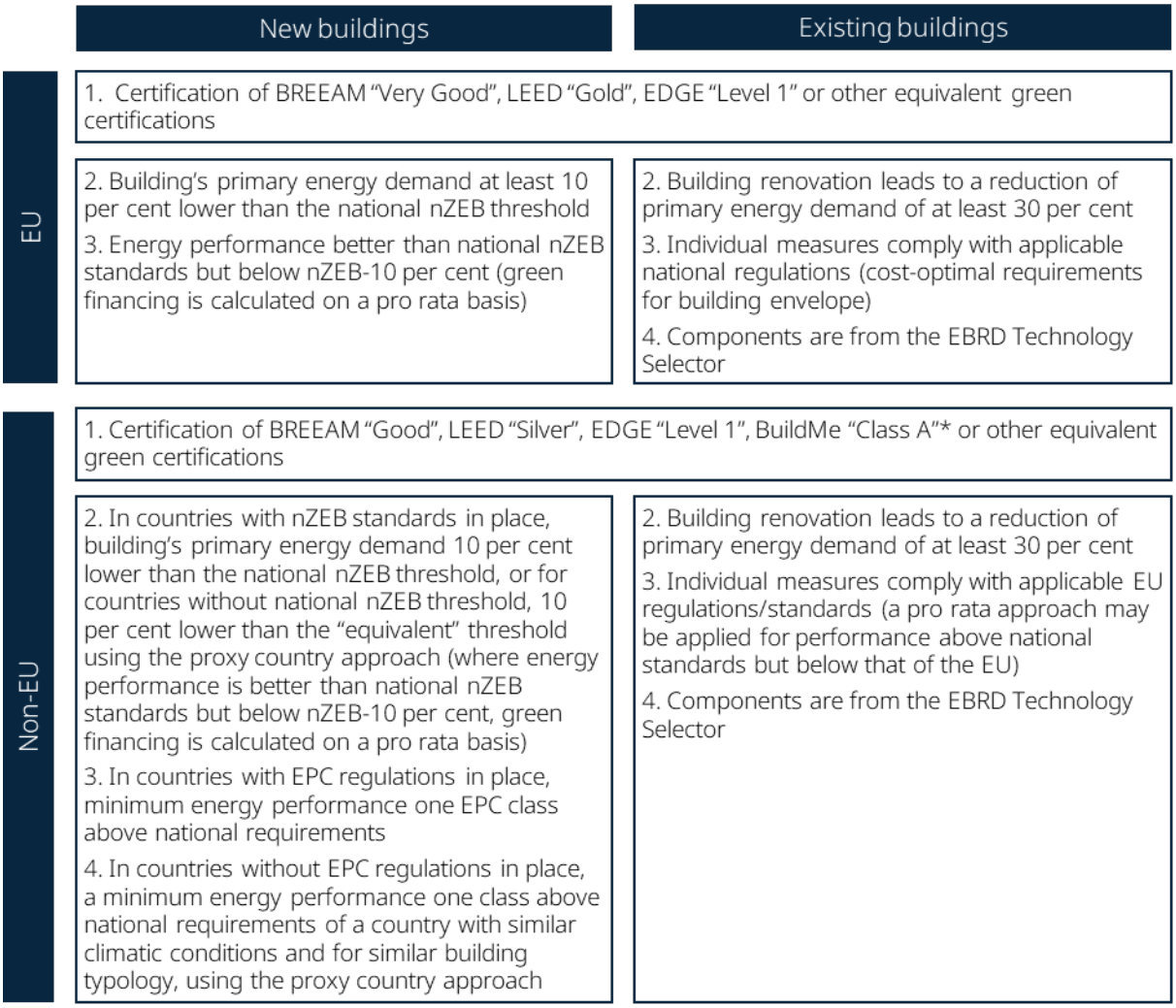
4.15. The acquisition and refinancing of green buildings are attributed as 100 per cent climate mitigation finance, as they aim to increase the availability of finance for high-performing buildings and send signals to markets about the need to lift the overall energy performance of the building stock, and are eligible under the substantial contribution criteria of the EU Taxonomy for Sustainable Finance. The following assessment criteria apply for acquisitions and refinancing:

a. In EU countries, for buildings built before 31 December 2020, (1) the building must have at least a class A EPC or (2) be in the top 15 per cent of the national stock in terms of energy performance, based on primary energy demand during operation (the top 15 per cent are calculated using data on EPCs or compliance with certifications).

b. For non-EU countries, eligibility is determined according to criteria 1-4 of Figure 4.1 on "new buildings".

53 This approach is relevant where there are no EPC regulations in place (such as in some non-EU countries) or where existing EPC regulations do not cover all building types (for instance, in some EU countries, where certain buildings, such as industrial buildings, may be excluded). The approach is based on establishing "equivalence" by comparing similar building typologies, climatic and other conditions across countries.

Figure 4.1. Summary of criteria for climate mitigation finance qualification in building projects



*Currently applicable for Egypt and Jordan. Other countries are subject to EBRD review and approval.

4.16. A portfolio of building assets includes projects such as sustainable property funds, green real-estate investment trusts, and projects involving the building assets of companies owning or occupying a large portfolio of buildings. For these activities to be attributed as 100 per cent climate mitigation finance, the portfolio must demonstrate compliance or commitment to complying with the criteria in Table 4.1, as follows:

a. For EU countries – any three criteria, with at least one compulsory criterion.

b. For non-EU countries – any two criteria, with at least one compulsory criterion.

c. In cases where physical upgrades will lead to a portfolio-level saving of at least 30 per cent, at least one of the additional criteria (both EU and non-EU) should be met.

Table 4.1. Criteria for assessing the portfolio of building assets

Criteria	Description of criteria
Compulsory criteria	
1. Advanced design and construction practices	Advanced sustainable design and construction practices (such as BIM, LCA and circular design)
2. Physical upgrade of assets	Physical upgrade of assets leading to portfolio-level energy savings
3. Resource-efficient operations and maintenance	Eligible activities include energy management system, sustainability due diligence, sustainable procurement plans, and so on
Additional criteria	
4. Governance on climate change and reporting under recognised international scheme	Ambitious climate change targets calibrated with relevant climate commitments (SBTi, NDC, and so on); climate change governance schemes (GRESB, GRI, EPRA, INREV) incorporated into business model and management of assets
5. Engagement with occupants and/or visitors	Inclusion or green clauses in lease agreements or fit-out guides to ensure sustainability practices are practiced by tenants
6. Certification of a representative sample of assets	Sustainability certification covering a sample set of assets

Transport

4.17. In applying the Common Mitigation Principles, the EBRD has established additional criteria to specify the minimum performance requirements for investments in the transport sector. Two broad investment categories qualify for climate mitigation finance in transport: fleets and infrastructure. These investments deliver green outcomes through a combination of performance improvements, modal shift, or promotion of low-carbon transportation.

4.18. The financing of transportation fleets and infrastructure is attributed as 100 per cent climate mitigation finance where the substantial contribution criteria for climate mitigation of the EU Taxonomy for sustainable activities are met.

4.19. In non-EU economies, selected fleet investments with tailpipe emissions may, under certain conditions, qualify for climate mitigation finance. Such investments are eligible if the fleets (1) meet Euro 6 vehicle emission standards, or at least Euro 4 where high-quality fuel is unavailable, and (2) fulfil at least one of the following performance criteria:[54]

- public passenger heavy-duty vehicles (HDVs) with emissions below 50 grams of CO_2e per passenger kilometre, for either additional or replacement purposes
- non-public transport passenger buses (for example, tourist, school, and employee buses) that replace existing fleet with scrappage, with emissions below 50 grams of CO_2e per passenger kilometre
- new light-duty vehicles, replacing an existing fleet with scrappage, with emissions below 50 grams of CO_2e per vehicle kilometre
- rail fleets with tailpipe emissions, below 50 grams of CO_2e per tonne-kilometre for freight rail or per passenger-kilometre for passenger services
- achieve at least 15 per cent GHG savings or CO_2e reduction compared with baseline.

54 Where Euro 6 standards are feasible, but the project meets Euro 5, a maximum 50 per cent climate mitigation will be attributed.

4.20. Investments in the construction and operation of transport infrastructure dedicated to low-carbon transport are attributed as 100 per cent climate mitigation finance. These include investments focused on metro, urban rail, trams, bus rapid transit, priority bus lanes, junctions and traffic management systems, related facilities (for example, depots, overhead wires for trolleybuses, terminals, stops and interchanges), as well as rail network expansion and rehabilitation. Such infrastructure investments do not require the demonstration of a minimum GHG saving compared with the baseline.

4.21. Investments in user information and management systems that enable the efficient use of infrastructure and promote the use of public transport are eligible for climate mitigation or environmental finance only if they can demonstrate an improvement of at least 15 per cent compared with the baseline.

4.22. In cases where infrastructure has a residual and time-bound share of fossil-fuel handling, the attribution of climate mitigation finance will be reduced by the proportional share of activity related to fossil-fuel handling (for example, financing for locomotives with 20 per cent oil freight would receive 80 per cent climate mitigation finance).

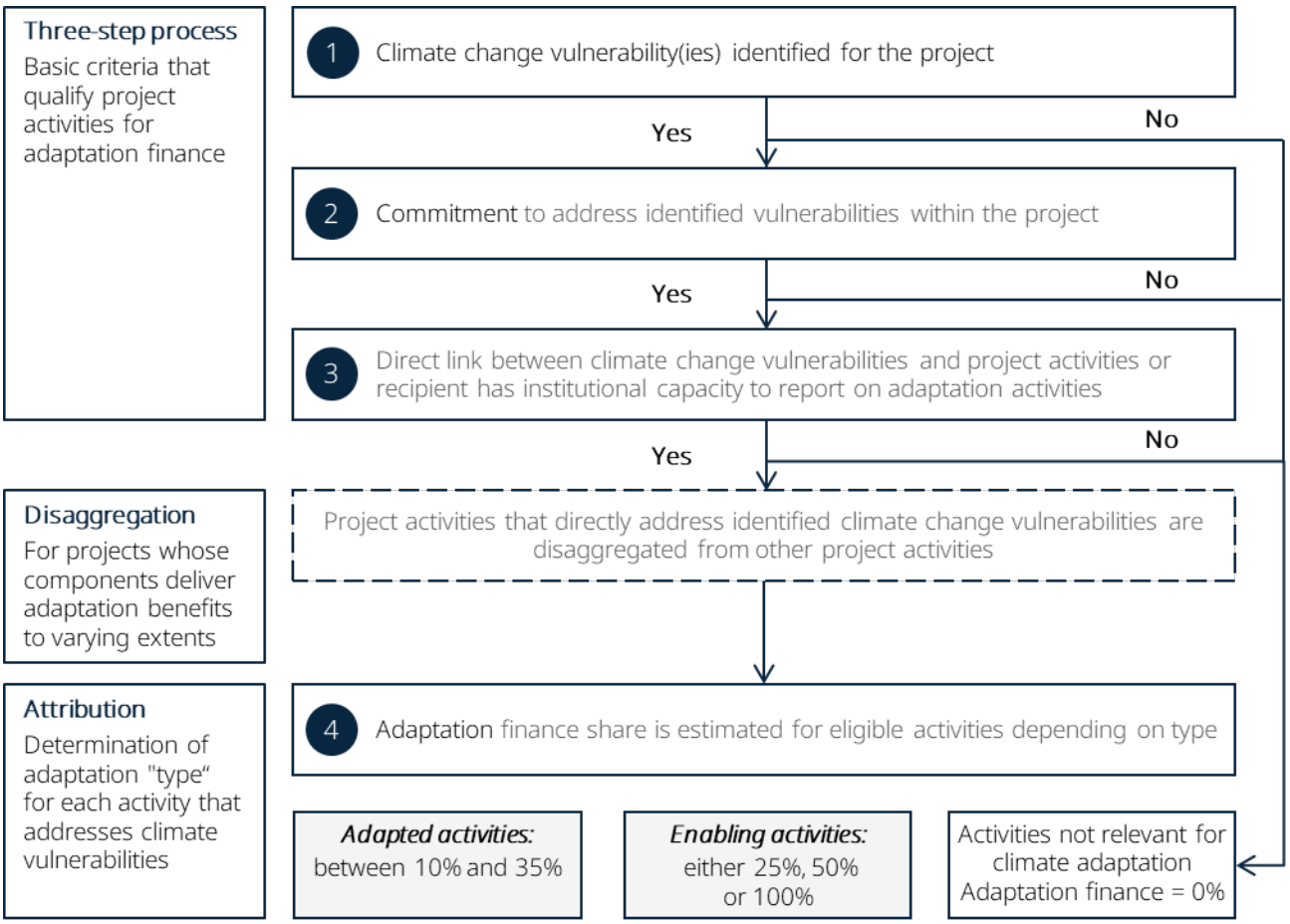
Approach to climate change adaptation activities

4.23. The EBRD uses the definition and classification of climate change adaptation activities set out in the Common Adaptation Principles. The methodology uses a context-specific, location-specific and granular approach to identifying adaptation activities and tracks finance at the "sub-project" or "activity" level.[55] The following two categories of activity are considered: (i) activities that are adapted to anticipate the impacts of climate change and (ii) activities that enable adaptation in a wider system.

4.24. The methodology for tracking adaptation finance involves a process-based approach to identifying adaptation activities within investments and attributing finance accordingly. Details for applying the methodology are set out for three financing types: (i) investments with known use of proceeds, (ii) working capital and (iii) intermediated financing (see Section 5 for how to apply the methodology to intermediated financing). The process consists of three steps, with specific clarifications for each instrument (see Figure 4.2). The approach to other financial instruments is applied on a case-by-case basis following the same principles. Step 4 attributes adaptation finance.

55 An activity is typically an economic activity or a distinctly different project element. Projects are not disaggregated to the level of individual capex line items or "measures".

Figure 4.2. Approach to attributing green finance for adaptation activities



Application in investments with known use of proceeds

4.25. For projects where the sectoral and geographical scope is known in advance, the following three steps should be followed to identify adaptation activities:

Step 1. Context of vulnerability

4.26. The context of climate change vulnerability should be clearly set out for the activity using a robust evidence base.[56] Project documents may refer to existing analyses and reports or to original, bespoke assessments of climate change vulnerability. Note that the context of vulnerability relates to the project boundary for activities that are adapted and the wider system for activities that enable adaptation. For further guidance, see Step 4 on estimating adaptation finance.

Step 2. Statement of intent

4.27. The project documentation should set out the Bank's explicit intention to address the context-specific and location-specific climate change vulnerabilities (and potential opportunities) identified. The methodology is flexible about the location and form of this statement of intent in the project documentation, as long as it is possible to record and track the rationale for each adaptation element linked to the climate vulnerability context described. A climate change adaptation activity's intention to

56 For all financing types, the project's context of climate change vulnerability should be consistent with the assessment of physical climate risks as part of its assessment of alignment with the adaptation goals of the Paris Agreement. Where there are differences, they should be documented and explained.

reduce vulnerability is typically stated in the final technical document, documents for Board approval, internal memos or other project documents.

Step 3. Clear and direct link between climate change vulnerability and project activities

4.28. Adaptation finance is allocated for specific project activities that are clearly linked to an identified context of climate vulnerability. Therefore, where possible, projects are disaggregated into discrete activities. Adaptation finance is attributed only to the activities that clearly respond to the context of climate change vulnerability. Each project activity can then be assessed as either an adaptation activity or not relevant for adaptation. When it is not possible to break down a project into activities, the project should be treated as a whole.

4.29. If these three steps are met, adaptation finance is estimated using the approach described in Step 4 on estimating adaptation finance.

Application in working capital transactions

4.30. Working capital is finance provided by the EBRD to an entity for operational expenditure. Working capital is considered to contribute to climate adaptation if it leads to, enables or supports the implementation and operation of adaptation activities.

4.31. The methodology for tracking adaptation finance in working capital identifies adaptation activities using the following three steps:

Step 1. Context of vulnerability

4.32. The context of climate change vulnerability should be clearly set out for the client's business model or stakeholders of influence.[57]

Step 2. Statement of intent

4.33. The client conducts adaptation activities and/or produces products or provides services that enable adaptation. This may, for example, include the use of sustainability certifications that require practices associated with reducing climate change vulnerabilities and maximising potential opportunities.[58] There must be a demonstrable link between the adaptation activities and the operations of the client, for example, they take place at the same business location or are part of a connected production process.

Step 3. Capacity of the client

4.34. The client has the institutional capacity to report on related adaptation activities, sustainability certifications that include adaptation practices, and/or information related to products or services that enable adaptation, or should otherwise commit to strengthening that capacity. Evidence of such capacity could include dedicated responsibility for climate change adaptation, corporate climate governance programmes, the disclosure of physical climate risk, or other evidence of processes that

57 "Stakeholders of influence" may include stakeholders throughout the value chain that have a direct or indirect influence on the climate change resilience of the borrower/investee, for example, agricultural suppliers, other water users in the same watershed, or logistics organisations.

58 Application of the relevant sustainability certifications should show that climate resilience criteria have been included, for example, agricultural certifications such as the Better Cotton Initiative (BCI) principles or buildings certifications such as BREEAM and LEED.

can support reporting on adaptation and climate resilience, for example, through existing sustainability certification.

4.35. If these three steps are met, then the adaptation activities are disaggregated from other activities in the client's business model. Adaptation finance is estimated by applying the percentages set out in Step 4 to the disaggregated adaptation activities. The approach to disaggregation is based on either the operational expenditures associated with adaptation activities, or other relevant proxy values, such as revenues from adaptation activities and products.

Step 4. Estimating climate adaptation finance

4.36. Climate adaptation finance may then be estimated for the adaptation activities within the project. The following two categories of activity are considered: (i) activities that are adapted to anticipate the impacts of climate change and (ii) activities that enable adaptation in a wider system.[59]

4.37. *Activities that are adapted*. Activities that integrate measures to manage physical climate risks and ensure that the project's intended objectives are realised despite these risks. These activities include adjustments or improvements required to ensure that the project performs well against experienced and anticipated impacts of climate change. Adaptation is not the primary objective of the activity.[60]

4.38. *Activities that enable adaptation*. Activities that directly reduce physical climate risk and/or build the adaptive capacity of the system within which the activity takes place and activities that contribute to reducing the underlying causes of vulnerability to climate change at the systemic level and/or removing barriers to adaptation (knowledge, capacity, technological and other barriers).[61] These activities are typically identified based on a robust understanding of the system within which the project is taking place and the physical climate risks it faces. Furthermore, these types of activity support adaptation beyond their immediate scope.[62] They are themselves adjusted to cope with the experienced and anticipated impacts of climate change. Adaptation is either the primary objective or one of the objectives of the activity (see Table 4.2).[63]

Table 4.2. Summary of the categories of adaptation activity

Category	Activities that are adapted	Activities that enable adaptation
Description	Activities that integrate measures to manage physical climate risks and ensure that the project's intended objectives are realised despite these risks	Activities that directly reduce physical climate risk and build adaptive capacity of the system within which the activity takes place and activities that contribute to reducing underlying causes of vulnerability to climate change at the systemic level and/or removing barriers to adaptation, such as knowledge, capacity, technological and other barriers
Objective	Adaptation is not the primary objective of the activity	Adaptation is one of the objectives or the primary objective of the activity

59 These two categories encompass the three types of adaptation activity described in the MDBs' Joint Methodology for Tracking Climate Change Adaptation Finance (MDBs, 2022a).

60 See MDBs (2022), type 1 activities.

61 The system within which the activity takes place can include the project or programme it is part of, surrounding geographical areas and landscape or the socioeconomic entities and groups benefiting from the project, or both.

62 Such as by creating enabling conditions for policy and regulatory environment developments, physical or natural asset enhancements, capacity strengthening, technology developments or knowledge enhancements.

63 See MDBs (2022), type 3 and type 2 activities, respectively.

Category	Activities that are adapted	Activities that enable adaptation
Scope	Adaptation at the project level	Adaptation at the system level
MDB adaptation activity type(s)	Type 1	Type 2 and Type 3

4.39. Project activities are disaggregated into the two categories of adaptation activity based on whether they are adapting their own activities or enabling adaptation in a wider system and whether adaptation is the primary goal or one of the goals of the activity. Climate adaptation finance is then attributed on a proportional basis that reflects the achievement of qualitative criteria related to the two categories, as follows (see Figure 4.3).[64]

Estimating climate adaptation finance for activities that are adapted

4.40. For activities that are adapted, the adaptation focus is on enhancing climate resilience at the project or asset level. In such activities, adaptation is not the primary objective. Adaptation finance is attributed at 10 per cent for adapted activities where the activity can show that:

a. the three steps have been followed in accordance with financing type at project level:
   i. climate change vulnerability(ies) have been identified for the project
   ii. there is a commitment to address the identified vulnerability(ies) within the project, and
   iii. there is a direct link between the climate change vulnerability(ies) and project activities, or the recipient has the institutional capacity to report on adaptation activities, and
b. the activity is expected to deliver a physical CRO in response to the identified climate risk(s), which can be clearly described.[65]

4.41. Further additional increments of climate adaptation finance can be attributed in the following cases:

a. Where the project documentation demonstrates that a dedicated climate risk and vulnerability assessment has been undertaken, referencing relevant international standards and guidance, going beyond the level of assessment that the Bank routinely conducts (either standalone or integrated into other project preparation documents), an additional 5 per cent of climate adaptation finance is attributed. [66]
b. Where the client has shown a commitment to assess and manage physical climate risks on an ongoing basis (using tools such as corporate climate governance, climate risk monitoring and response plans, flexible adaptation approaches, and so on) and this commitment is reflected in project documentation, an additional 10 per cent of climate adaptation finance is attributed.
c. Where the activity delivers a significant CRO(s) (for example, a CRO-to-total project value ratio of 10 per cent or greater) that has(have) been identified, quantified and valorised, an additional 10 per cent climate adaptation finance is attributed.

64 The climate adaptation finance attributed is estimated as a proportion of the EBRD finance that corresponds to the adaptation activities included in a project and to the adaptation that they deliver, considering inputs, outputs and outcomes.

65 Six categories of physical CRO are considered relevant: increased availability of water; increased availability of energy; increased agricultural potential; improvements to human health and/or productivity; reduced weather-related disruption; and reduced weather-related damage. See Annex 1 for further information on the identification, quantification and valorisation of CROs.

66 Relevant standards and guidance include guidance such as JASPERS (2017) and standards such as ISO 14090 (ISO, n.d.), as well as industry-specific guidance for the activity.

4.42. The range of climate adaptation finance that can be attributed for activities that are adapted is between 10 per cent and 35 per cent.

Box 4.1. Examples of activities that are adapted

The following are examples of activities that are adapted:

- a road impacted by flooding, which has integrated resilience measures to ensure that traffic can still flow during flood events
- an office located in a heat-stressed region, which increases thermal comfort for its occupants
- a financial product aimed at farmers using climate-resilient technologies in their practices to increase yields.

Estimating climate adaptation finance for activities that enable adaptation

4.43. This category of adaptation activities enables adaptation at the systems level and has adaptation as an objective. For activities where the primary objective is to enable adaptation within the wider system, these activities are attributed as 100 per cent climate adaptation finance if the activity can demonstrate that:

a. the three steps have been followed in accordance with financing type at a systemic level:
   i. climate change vulnerability(ies) or adaptation opportunity(ies) have been identified at a systems level through an assessment of both current weather variability and future climate change, including uncertainty, based on robust climate data
   ii. the activity reduces material physical climate risk in other economic activities and/or addresses systemic barriers to adaptation,[67] and
   iii. there is a direct link between climate change vulnerability and activities at a systems level, or the recipient has the institutional capacity to report on adaptation activities
b. the activity is expected to deliver a physical CRO in response to the identified climate risk(s), which can be clearly described,[68] and
c. the client's project documentation clearly states that the primary objective of the activity is adaptation to climate change.

4.44. For activities that have shared objectives of adaptation and development, the share of adaptation finance attributed is linked to the extent of the adaptation objectives, or whether adaptation is a co-benefit of the activity.[69] Adaptation finance in these activities is attributed as follows. All these activities must demonstrate that:

67 Supported by an assessment of the effectiveness of the contribution of the activity to reducing those risks, taking into account the scale of exposure and the vulnerability to them.

68 Six categories of physical CRO are considered relevant: increased availability of water; increased availability of energy; increased agricultural potential; improvements to human health and/or productivity; reduced weather-related disruption; and reduced weather-related damage. See Annex 1 for further information on the identification, quantification and valorisation of CROs.

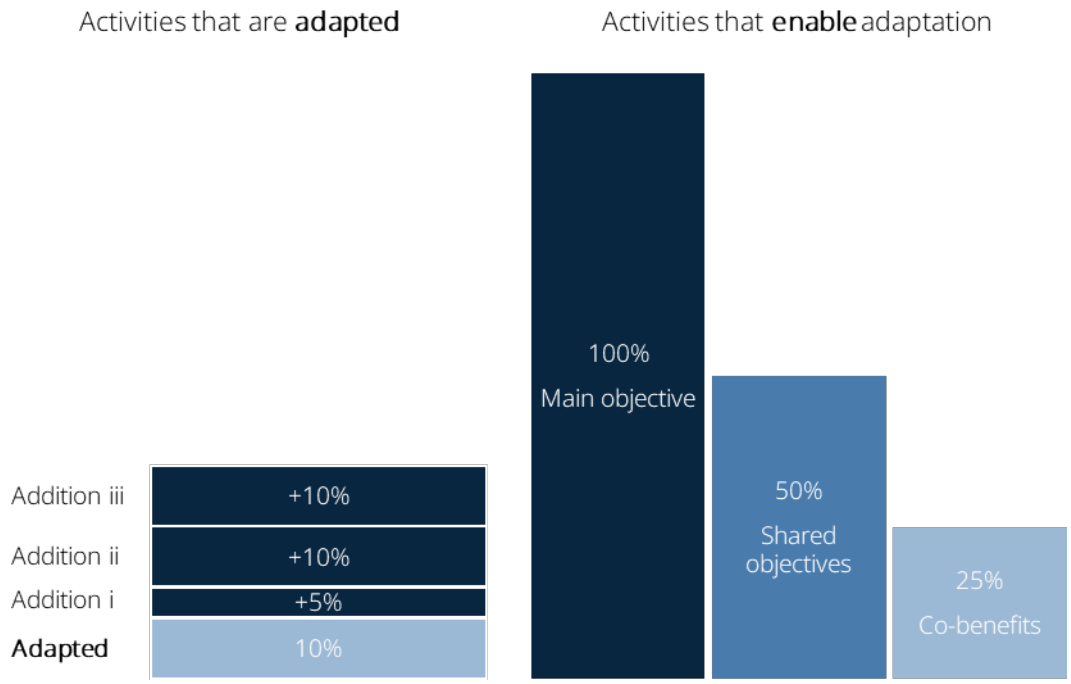
69 A system-wide co-benefit is defined as when CROs are delivered to the wider system as a consequence of the activity. For example, water savings are considered system-wide co-benefits in the case of significant water returned to the wider system resulting from water-intensive economic activities operating in water-scarce contexts.

a. the three steps have been followed in accordance with financing type at a systems level:
   i. climate change vulnerability(ies) or adaptation opportunity(ies) have been identified for the system in which the activity takes place
   ii. there is a commitment to addressing the identified vulnerability(ies) or building adaptive capacity at a systemic level
   iii. there is a direct link between climate change vulnerability and activities at a systemic level, or the recipient has the institutional capacity to report on adaptation activities.

b. the activity is expected to deliver a physical CRO in response to the identified climate risk(s), which can be clearly described, and where an activity can either demonstrate that:
   i. the client's project documentation clearly states a specific objective to deliver system-wide adaptation, 50 per cent climate adaptation finance is attributed, or[70]
   ii. the adaptation delivered by the project is a system-wide co-benefit of the activity, 25 per cent climate adaptation finance is attributed.[71]

4.45. The range of climate adaptation finance that can be attributed for activities that enable adaptation is either 25 per cent, 50 per cent or 100 per cent.[72]

Figure 4.3. Green finance adaptation shares by adaptation category and type



70 Such documents may include a feasibility study, technical due diligence, climate risk assessments, client business and operational plans and so on. They should reference specific climate risks and explain how the activities have an objective of delivering adaptation.

71 A system-wide co-benefit is defined as when CROs are delivered to the wider system as a consequence of the activity. For example, water savings are considered to be system-wide co-benefits in the case of significant water returned to the wider system as a result of water-intensive economic activities operating in water-scarce contexts.

72 See EBRD (2023c) for further information on the sources used to determine proportional climate adaptation finance attributions.

Box 4.2. Examples of activities that enable adaptation

Examples of activities that enable adaptation include the following:

- A flood defence system for a city. Such an activity would be attributed as 100 per cent climate adaptation finance.
- Research and development of drought-resilient crop breeds. Such an activity would be attributed as 100 per cent climate adaptation finance.
- A fund that provides finance to small and medium-sized enterprises (SMEs) specifically to accelerate the development, application and transfer of adaptation solutions. Such an activity would be attributed as 100 per cent climate adaptation finance.
- Water supply infrastructure needed to meet the demand of an increased population, with an objective to reduce drought risks to the system. Such an activity would be attributed as 50 per cent climate adaptation finance.
- Cash transfer activities for underserved and vulnerable communities with clear objectives to strengthen social protection and improve preparedness for and recovery from climate shocks. Such an activity would be attributed as 50 per cent climate adaptation finance.
- Solar photovoltaic (PV) and wind projects in water-scarce contexts, which reduce reliance on water-intensive energy production and save water as a co-benefit.[73] Such an activity would be attributed as 25 per cent climate adaptation finance.
- Water-efficient agricultural irrigation schemes in a water-scarce location, which conserve water for the wider system as a co-benefit. Such an activity would be attributed as 25 per cent climate adaptation finance.

4.46. Activities that are adapted and activities that enable adaptation are not mutually exclusive. Projects can include both categories of adaptation activity, as well as non-adaptation activities. To estimate the total climate adaptation share of a project, the shares of each activity are aggregated. When it is not possible to break down a project into separate activities, the project should be treated as a whole, and a climate adaptation share attributed based on the project's main category of adaptation activity.

Sector-specific guidance

4.47. *Power*. A zero to low water-consuming power grid will be an important part of many countries' climate resilience pathway, particularly those with high or very high water scarcity. In this context, reducing water consumption for energy production can be a material contribution to reducing climate vulnerability. For solar PV and wind projects, the EBRD has developed internal guidance on eligibility for climate adaptation financing, which applies the following three-step process:

a. Step 1. A solar PV or wind project displacing power facilities that are consuming water and are in locations that are highly or very highly water stressed, according to the tools and methodologies the EBRD applies for assessing physical climate risks.

b. Step 2. There is a need to increase water availability in the context of climate change, established with reference to an EBRD country strategy, Nationally Determined Contribution (NDCs) or National Adaptation Plan.

c. Step 3. The solar PV or wind project is connected to a grid where it can displace water-consuming facilities.

73 Following the approach set out in EBRD guidance on the climate resilience assessment of solar PV and wind projects in water-scarce contexts

4.48. *Desalination*. Desalination is a technology option that can be deployed in water-scarce contexts to improve climate resilience and reduce environmental/nature stressors. To be considered green finance eligible, a desalination plant that is predominantly dedicated to municipal use will need to demonstrate that it is consistent with industry benchmarks in terms of plant energy intensity, in line with principles outlined in Section 2. Specifically, performance of the plant must not exceed 3.7 kilowatt hours per cubic metre of freshwater produced at plant level.[74] The performance will be assessed net of any dedicated renewable generation and/or waste-heat recycling. Appropriate performance benchmarks for plants not dedicated to municipal use will be determined on a case-by-case basis.

4.49. *Agriculture*. For activities that enable adaptation by targeting improvements in the resilience of primary production within the client's direct supply chain (such as an agricultural supply chain), the attribution process should consider clients' capacity, country practices and the structure of the supply chain. The investment will be eligible for climate adaptation finance attribution if the client commits to:

a. Implementing activities that lead to increased adoption of climate-resilient practices, technologies, services or other interventions across a sufficient number of suppliers to demonstrate material impact. Materiality will be assessed based on the vulnerability of the supply chain to the specific climate risk, the portion of the client's supply chain covered by the activities, the country-specific context and the client's leverage over its suppliers.

b. A post-signing monitoring plan to confirm the delivery of the agreed activities and the uptake of the resilient practices, technologies, services or other interventions.

Approach to nature activities

4.50. Nature finance supports the implementation of the GBF.[75] This approach is grounded in the Common Nature-positive Principles and includes all activities that advance the goals and targets of the GBF.[76]

4.51. Nature finance supports actions that protect, restore or enhance the sustainable use and management of nature, or enable these actions, thereby contributing to the halting and reversing of nature loss. The Common Nature-positive Principles encompass the following activities that form the basis for eligible nature finance activities:

a. *protection*: refers to those activities that maintain the current status and condition of biodiversity and ecosystems

b. *restoration*: refers to the process of assisting the recovery of an ecosystem that has been degraded, damaged or destroyed relative to a reference state

c. *sustainable use and management of nature*: indicates a shift of economic activity away from processes driving nature loss

d. *enabling conditions*: refer to policies, models and sectoral instruments, incentives, data and other tools enabling the above activities.

4.52. Within nature finance, some activities may be identified as meeting a higher standard for contributions to nature and be classified as "nature-positive finance". There are three criteria for nature-positive finance, consistent with the EBRD's overall principles for green finance attribution:

74 This has been calculated by reviewing the energy performance of sea-water reverse osmosis installations in 2021-23.

75 See EBRD (2023b) and Gerritsen et al. (2022).

76 See MDBs (2023). This has been further supplemented by drawing on World Bank (2023), which presents a methodology for nature finance tracking.

a. The finance makes a substantive contribution to nature. A substantive contribution can be achieved by (i) reducing pressure on biodiversity or ecosystem services; (ii) directly improving the state of nature (for example, by protecting and restoring ecosystems and enhancing ecosystem services);[77] or (iii) creating the enabling conditions for (i) and (ii).[78]

b. Expected outcomes for ecosystems or biodiversity are measurable and can be assessed against a baseline, where feasible, or a no-project scenario.[79] Pre-investment assessments should confirm that nature-positive finance is expected to deliver measurable positive outcomes for biodiversity, ecosystems or the services they provide.[80]

c. The finance, including associated facilities, is not expected to pose any direct significant adverse risks to, or have adverse impacts on, nature or to significantly undermine other environmental or development objectives, such as climate change or circular economy transition.[81] MDBs' environmental and social safeguard policies serve as the minimum standard to ensure the identification, assessment and management of environmental and social risks and impacts associated with the projects and investments supported.

4.53. Nature-positive finance has a purposefully narrow definition and does not cover all investments that may be beneficial for nature. Therefore, to recognise these investments, the Bank also accounts for another category of nature finance, called "nature-mainstreaming finance".

4.54. Nature-mainstreaming finance encompasses a broader set of actions needed to enable a transition to an economy that protects, restores and sustainably uses nature (and supports the broad ambition of the GBF). They are activities that make a substantial contribution to reducing pressures on nature loss and enable the achievement of the GBF goals, but do not meet all the criteria for nature-positive finance.

4.55. The expected results and monitoring approach differ for nature-positive and nature-mainstreaming finance. For nature-positive finance, the results are expressed as an expected change in the state of nature and these changes may be at the project or system level. For nature-mainstreaming, the results are expressed as changes in pressures or drivers of loss and these changes are at the project level. In both cases, the changes must be measured as part of project design. Relevant changes are estimated as part of project preparation and associated indicators are included in the GPMP.

4.56. As the intention of nature finance is to identify finance that delivers additional value for nature, activities solely undertaken to mitigate and offset the negative impacts of the Bank's investments on

77 This can be done through the implementation of nature-based solutions, as long as these result in positive outcomes for nature over the medium to long term.

78 Inspired by the definition of a substantial contribution under the EU Sustainable Finance Taxonomy. See Canfora et al. (2022).

79 This involves considering the expected outcomes of the intervention compared with the business-as-usual or baseline state of, or trends in, biodiversity or ecosystem services before the intervention. Baselines can be established at the scale of the intervention or at the spatial scale at which the outcomes will materialise. For policy interventions, measurable may mean that policies are enabled or enacted to support nature-positive outcomes.

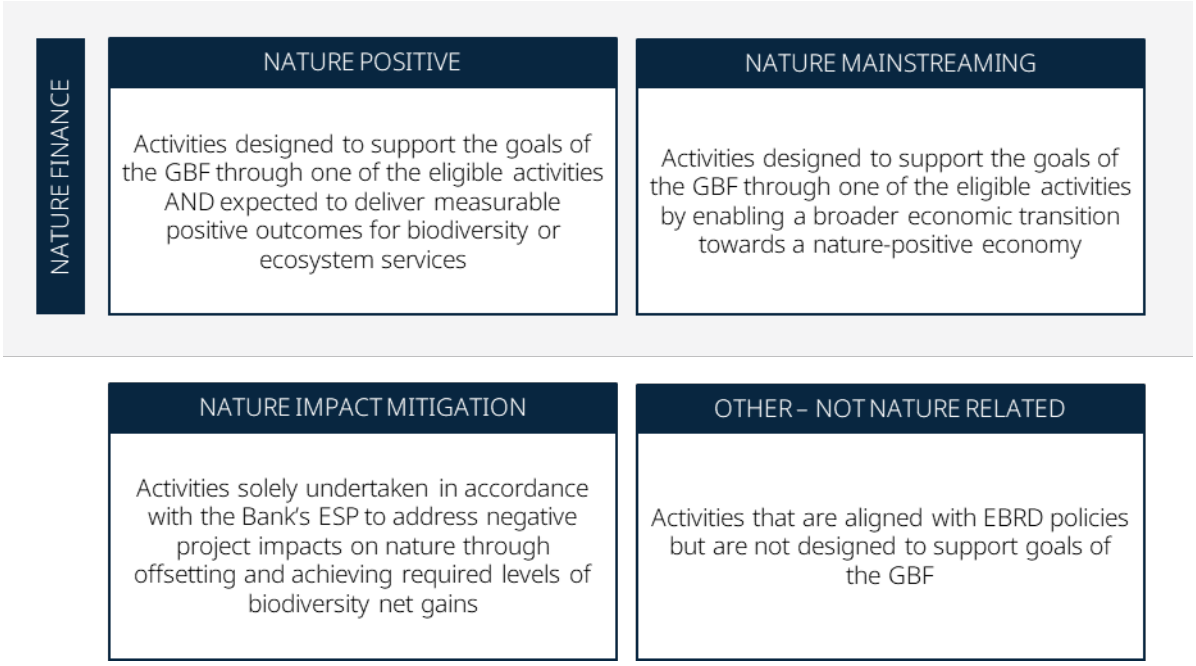
80 The post-project measurement of actual impacts on nature is beyond the scope of the Common Nature-positive Principles. However, it is good practice to monitor outcomes during or after project implementation, or both. For example, the use of loss-gain accounting of biodiversity loss and gain to track biodiversity net gain (BNG) outcomes is required where there is significant loss of nature associated with project activities, but can also be used to track and monitor benefits from other nature finance activities.

81 This criterion should generally be applied at the project level (under which multiple activities can fall).

nature do not qualify as nature finance. This type of finance is called "nature impact mitigation" and refers specifically to offset activities implemented in accordance with the ESP.

4.57. Figure 4.4 sets out the different categories of activity that qualify as nature finance and the relationship of these to other activities that the Bank finances.

Figure 4.4: Identifying nature finance activities among the EBRD's investments



Process to determine nature finance eligibility

4.58. There are four steps involved in classifying activities as nature-mainstreaming or nature positive.[82]

4.59. Step 1 determines whether investments support activities that may qualify as nature finance and are, therefore, consistent with paragraph 4.52a. There are two routes:

a. Activities that appear in a draft nature finance taxonomy currently being prepared by the MDBs are automatically considered to be qualifying activities.[83] All activities in this taxonomy are consistent with the overall principles outlined above and address the drivers of nature loss with regard to land-, freshwater- and ocean-use change, pollution, the direct exploitation of natural resources, and invasive species.

b. Activities that can demonstrate a contextual basis for nature finance. For activities to qualify, investments must demonstrate that there are vulnerabilities in the current state of nature, the activities target the identified vulnerabilities, and there is a clear causal pathway between the activities, a reduction in vulnerability and an improved state of nature. The ability of the investment to address these vulnerabilities must be documented and associated targeted outcomes must be defined.

82 Though this process is relevant for classifying projects and project components, the EBRD only tracks and reports finance associated with nature positive and nature mainstreaming.

83 The taxonomy is a work in progress and not yet publicly available . It reflects work undertaken by the MDBs to align on a set of activities that can be labelled as nature finance. It will continue to evolve in line with project experience and MDB collaboration. The EBRD will publish the taxonomy on which it relies following an initial pilot phase. The taxonomy is being designed to be interoperable with external standards, notably the International Finance Corporation's Biodiversity Finance Reference Guide (IFC, 2023).

4.60. Step 2 confirms that qualifying activities are not required as a result of nature impact mitigation in line with the Bank's ESP, including ESR 6 on safeguarding and enhancing ecosystems.

4.61. Step 3 assesses whether the investment requires the mitigation and compensation for potential harm to critical habitats.[84] If this is the case, activities will be classified as nature-mainstreaming finance, rather than nature-positive as they are not consistent with paragraph 4.52c, regardless of whether the activities can meet further criteria for nature-positive finance.

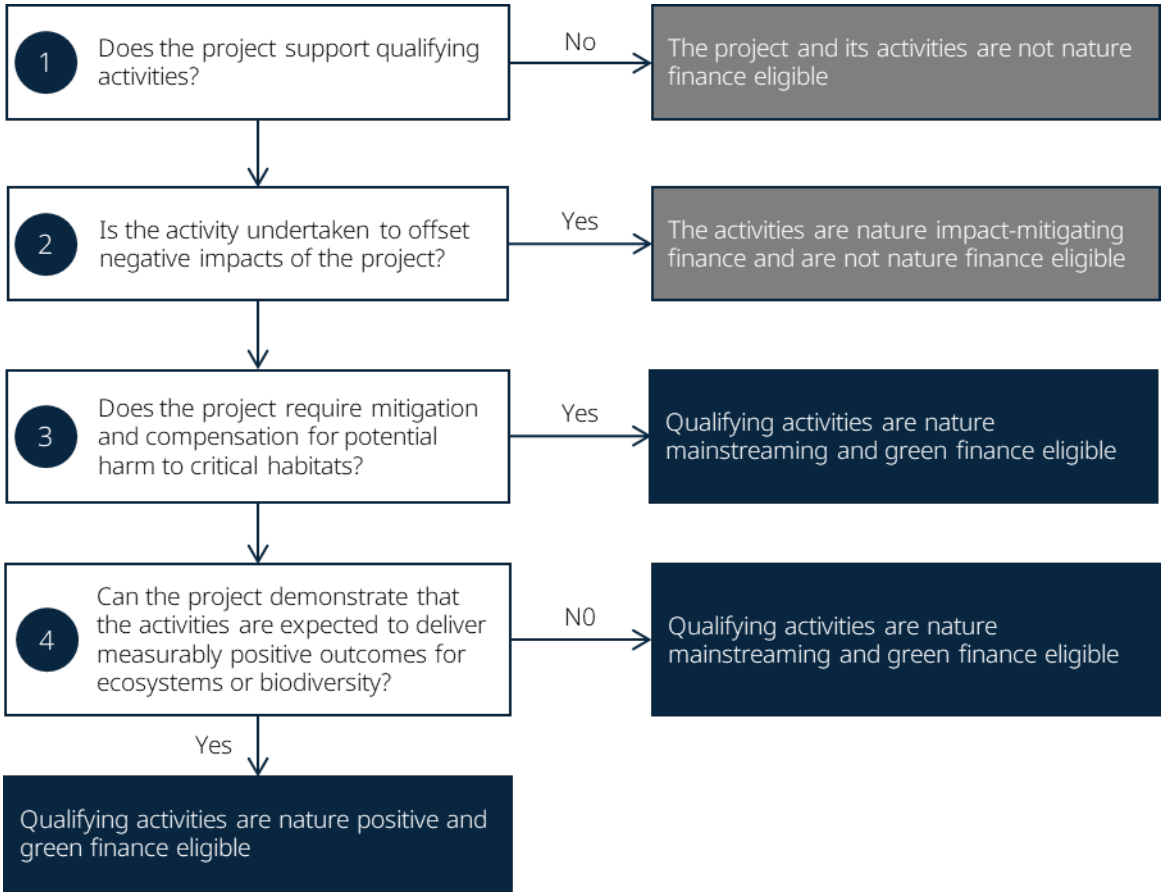
4.62. Step 4 assesses whether it is possible for the activities to deliver measurable improvements to the state of nature within the project boundary or in ecosystems impacted by qualifying activities, consistent with paragraph 4.52b. Where improvements can be measured and monitored as part of project design, the qualifying activities are considered nature positive. Otherwise, where the measurable outcomes will reduce pressures or drivers of nature loss, the qualifying activities are considered nature mainstreaming.

4.63. This process aligns with the joint MDB criteria for nature-positive finance. Projects may include both activities that are nature-positive and activities that are nature-mainstreaming, as not all potential improvements in the state of nature (either at project or systems level) may be measurable and monitorable. An individual activity cannot be both nature positive and nature mainstreaming.

4.64. Investments or investment components are 100 per cent green finance eligible where they meet qualifying criteria for nature finance in line with a use-of-proceeds attribution process. This attribution does not depend on whether activities are nature mainstreaming or nature positive (see examples in Box 4.5).

84 Per the ESP, the most sensitive biodiversity features are defined as critical habitat, comprising one of the following: (i) highly threatened or unique ecosystems; (ii) habitats of significant importance to endangered or critically endangered species; (iii) habitats of significant importance to endemic or geographically restricted species; (iv) habitats supporting globally significant migratory or congregatory species; or (v) areas associated with important evolutionary processes.

Figure 4.5. Process to determine nature-mainstreaming and nature-positive finance



Additional guidance for use-of-proceeds attribution in relation to nature finance projects

4.65. In addition to the general attribution approach, 15 per cent green finance may be attributed in cases where the benefits to nature materially exceed the cost of implementing associated measures. In such cases, attribution is based on the recognition of nature co-benefits rather than the specific cost of the project components themselves. This approach is applicable in cases where:

a. the cost of implementing measures is not significant to either the project or the Bank's investment, but positive impacts are substantial, or

b. the measures are associated with the project, but financed by the client rather than being part of the project or the Bank's investment.

4.66. To qualify for this 15 per cent green finance attribution and to be considered substantial, relevant measures must:

a. meet all the criteria for nature-positive finance at a component level, as outlined in paragraph 4.52

b. have a similar physical footprint to the overall project footprint such that measures are considered material for the size of the project,[85] and

c. deliver benefits to nature that substantially outweigh any negative project impacts identified and mitigated in accordance with the ESP.

85 In exceptional cases, where the project footprint is very small or benefits arise in aquatic ecosystems, other appropriate metrics may be used to determine the materiality of nature-related activities.

4.67. Projects where this attribution may be applicable include those where measures delivering co-benefits are directly integrated into the project design (see Box 4.4), or those where measures go beyond the core scope of the project to deliver supplemental nature benefits (see Box 4.5).

Sector-specific guidance

4.68. The EBRD has developed additional guidance for certain investment categories to support the qualification of nature finance eligibility. These relate to the following:

a. *Industrial pollution prevention and control*. For brownfield sites, the introduction of additional pollution prevention and control measures will qualify as nature finance if they are not introduced for regulatory compliance. The EU BAT standards will normally be the benchmark for minimum performance. Greenfield investments will not normally qualify as nature finance under this category.

b. *Sustainable agriculture*. Investments need to demonstrate a quantified reduction in the environmental impact of pesticide/herbicide use, improvement in fertiliser use efficiency, or other shifts in activity away from processes driving nature loss compared with the pre-project baseline.[86] Where irrigation investments are associated with an expansion of farmed land area, these investments will be required to show an overall reduction in total absolute water use due to the implementation of irrigation systems compared with the pre-project baseline.

c. *Climate-smart agriculture*, including resilient crop varieties, will be attributed as nature finance when it meets criteria for both climate adaptation finance and those of the nature finance taxonomy.

d. *Wastewater treatment plants and collection networks*. While the nature finance taxonomy indicates a preference for achieving zero pollution as a result of the implementation of wastewater treatment investments, these investments often address legacy impacts on biodiversity and ecosystems, particularly in the municipal sector. Investments will be eligible where they introduce, at a minimum, EU standards that were not previously met.

e. *Circular economy.*[87] Only where there is a clear nature benefit will circular economy activities be considered nature finance, until such time as there are relevant criteria for these activities agreed by the MDBs.

f. *Buildings.* Investments in the built environment related to greenfield construction or the rehabilitation of existing buildings will qualify as nature finance only where the investment establishes a theory of change demonstrating the connection between the building investment and the recovery of local ecosystems.

86 Projects involving the conversion of land to certified organic farming need to demonstrate a strong link between the EBRD's financing and the conversion of land to certified organic farming. In particular, for projects with traders or retailers of organic products, this should be demonstrated through: (a) a commitment in relation to (i) the additional amount of certified organic products that will be purchased or traded and (ii) the size of the agricultural land to be converted from conventional farming practices to certified organic practice and the timeframe for the conversion (if the EBRD client is directly involved in the conversion); and (b) a post-signing monitoring plan that will make it possible to confirm whether the conversion of land to certified organic farming has occurred.

87 A circular economy is a market economy that preserves the added and inherent value of physical resources while keeping resources within the economy for a long as possible and captures value at end of life, with the intention of minimising virgin material consumption, waste and value-chain risks.

Box 4.3. Project examples of nature finance attribution with green use of proceeds

A wastewater treatment plant that reduces water pollution contributes to the remediation and recovery of river ecosystems and would, therefore, achieve 100 per cent green finance attribution, as it materially reduces pressures in the affected ecosystem. All of the use of proceeds would relate to the construction of the plant.

A reforestation carbon project relying on the planting of a variety of native species would achieve 100 per cent green finance, as it directly assists the recovery of a degraded ecosystem.

Development of a greenfield production plant, including a production line for the manufacture of ocean- and water-friendly household products, corresponding to 40 per cent of total project costs would achieve 40 per cent green finance attribution.

Box 4.4. Examples of nature co-benefits integrated into project design

An irrigation infrastructure enhancement project that reduces water abstraction needs in production would be attributed as 15 per cent green finance where the over-exploitation of water is a material driver of nature loss and the volume of water returned can enable ecosystem recovery.

A building development project that includes green roofs for climate resilience and habitat creation would achieve 15 per cent green finance attribution, where the habitat creation is of sufficient extent to reasonably support or enhance biodiversity.

An urban development programme to provide greater housing stock and greenspaces in a city would achieve 15 per cent green finance if it could reasonably demonstrate that the green spaces would support habitat restoration or creation to improve local biodiversity and ecosystems.

A social programme to create a formalised market for fish, focused on delivering consistent and fair prices, that will also reduce illegal/unregulated fishing activities, including overfishing, would achieve 15 per cent green finance attribution if it can demonstrate that the impacts reduce pressure on fisheries to an extent that enables a sustained recovery in wild stocks.

Box 4.5. Examples where nature co-benefits are supplementary to core project design

A hotel development project, where the company partners with a local protected area management agency to design a tourism package appropriate to the scale of the protected area and generates material finance for conservation activities to maintain biodiversity, which is monitored over time, would be attributed as 15 per cent green finance.

A road rehabilitation project adjacent to a degraded wetland, which invests in ecosystem restoration and enhancement (enhanced nature recovery, see details below) would achieve a 15 per cent green finance attribution.

A mining project, where the company voluntarily invests in significant biodiversity enhancement (for example, an increase in the extent and condition of ecosystems or the recovery of threatened species) above and beyond compliance requirements (enhanced nature recovery, see details below), would achieve a 15 per cent green finance attribution.

Enhanced nature recovery

Potential nature activities may be considered nature finance where they have clear, substantive, causal links to positive outcomes for nature by 2050 that can be measured in the context of the activity using a suitable metric of biodiversity, generally improvements in the extent, condition or significance of ecosystems, even in cases where the project requires mitigation actions in response to significant, adverse and irreversible loss of nature in critical habitats on shorter timescales.

Such activities can be considered nature finance on the following basis:

- The project utilises the mitigation hierarchy to avoid, minimise, restore and, in ultimate instance, offset the initial loss of nature due to its activities.
- The project is compliant with ESP requirements for no net loss of priority biodiversity features and the BNG of critical habitat.
- The project uses a suitable metric for calculating BNG, which is used to evidence compliance against the ESP and for enhanced nature recovery.
- The project documentation demonstrates that a dedicated nature or biodiversity baseline assessment has been undertaken, referencing relevant international standards and guidance.
- The client has shown a commitment to assessing and managing nature-related impacts or risks, or both, on an ongoing basis and this commitment is reflected in project documentation.
- The project achieves a substantial level of enhanced nature recovery (for example, using a suitable metric of habitat extent, condition and significance to evidence BNG) beyond compliance requirements by 2050 compared with a "without project" baseline, and these are monitored on a regular basis.
- There is evidence of assurances that BNG will be implemented, maintained and monitored through mechanisms such as: (i) public commitments from third-party stakeholders, such as forest management authorities, protected area authorities and private landowners; (ii) third-party legal agreements on the long-term use of land parcels; (iii) a monitoring and evaluation framework, including a results disclosure plan; and (iv) a restoration area monitoring and management protocol for understanding the success of the measures.

Approach to other environmental activities

4.69. Specific activities eligible for green finance attribution under other environmental activities include (see the "positive list" in Table 4.3):

a. expansion and efficiency improvement of drinking-water supply

b. resource efficiency and transition to a circular economy

c. air-pollution prevention and control.

4.70. To be eligible for green finance, environmental products need to meet the criteria of internationally recognised eco-labels, or energy, eco-efficiency or other relevant environmental certification (such as Nordic Swan Ecolabel, EU Ecolabel, Forest Stewardship Council certification or Programme for the Endorsement of Forest certification), awarded to products that have a smaller environmental footprint over their lifecycle to other products serving the same use.

Table 4.3. Positive list of other environmental activities

Category	Environmental activity	Criteria and comments
1. Expansion and efficiency of drinking-water supply	1.1. Improvement of water supply and demand efficiencies, including leak prevention and performance optimisation	To qualify as green finance, the investment will be expected to demonstrate a quantifiable reduction in water use compared with the pre-project baseline.
	1.2. Improvement of drinking-water quality	Projects should introduce EU standards in areas where they were not previously being met.
	1.3. Increased access to piped water supply	Projects should lead to the creation or expansion of the water supply systems and an increase in the number of people with access to it.
2. Resource efficiency and transition to a circular economy	2.1. Sustainable waste management	At a minimum, projects should introduce waste management practices compliant with EU standards in areas where they were not previously being met. The category includes waste minimisation, recovery, recycling, re-use and disposal activities, as well as associated equipment and facilities required for the operation of a waste management plan.
	2.2. Sustainable supply-chain management activities that reduce environmental footprint	To qualify as green finance, the investment will be expected to demonstrate a quantifiable reduction in resource or energy use compared with the pre-project baseline.
	2.3. Sustainable building developments that reduce the environmental footprint of the buildings	To qualify as green finance, building developments are expected to demonstrate a quantifiable reduction in materials or resources, or both, compared with the baseline.
	2.4 Transition to a circular economy	To qualify as green finance, the investment will be expected to meet the criteria of the European Commission's Categorisation system for the circular economy[88] and to demonstrate physical environmental benefits.
3. Air-pollution prevention and control	3.1. Clean transportation, including green or SMART systems	Investments should result in a modal shift from a more polluting alternative to a viable baseline scenario. Investments that improve local air quality[89] will qualify as green finance (for example, bus investments that reduce the use of diesel and particulate emissions).
	3.2. Air-pollution management	Projects should tackle problems associated with air pollution and result in improved ambient air quality compared with the baseline scenario.

88 See European Commission (2020).

89 Road infrastructure projects that aim to eliminate bottlenecks or congestion are eligible for environmental finance only if they can achieve at least a 15 per cent reduction in local air pollutants (particulate matter, NOx and SOx) and do not increase GHG emissions relative to the baseline, based on an assessment that includes: identification of a local air pollution problem; long-term traffic forecasts that take into account the induced traffic; impacts of air pollutants on human health; and a leakage analysis to ensure that the projects actually lead to reductions in emissions and do not shift congestion and emissions to secondary or side roads.

Section 5. Specific guidance: financial structure

5. Specific guidance: financial structure

5.1. This section complements the green finance attribution process outlined in Section 3 with tailored guidance for financial intermediary operations, trade finance instruments, specific debt investments and equity investments.

Financial intermediary operations

5.2. Operations eligible for green finance financed through partner financial intermediaries (PFIs) typically address multiple eligible small or medium-scale investments ("sub-projects") in specific target sectors, for example, the residential, commercial, industrial or public sectors.

5.3. Where the defined use of proceeds attribution route is being used, green finance is attributed at the operational or sub-project level, based on one of the following methods:

a. *Determination of green finance eligibility at the framework level.* Eligibility criteria are defined in an annex to the financing agreement between the EBRD and the financial intermediary.

b. *An open list of high-performing technologies* that have been pre-assessed as eligible for green finance in the EBRD's Green Technology Selector (GTS). This list includes technologies that exceed minimum performance requirements, performing beyond current market practices to achieve measurable green outcomes and environmental improvements in line with green finance criteria. The extent to which performance requirements go beyond the reference baseline varies by technology and is set according to four principles: technological progress, maturity of market supply, market penetration rates and technology costs.[90]

c. *Assessment of sub-projects against standard eligibility criteria*. Where a financial intermediary operation includes innovative products not covered by, or deviating from, standard eligibility criteria, a tailored approach will be taken to green finance eligibility, referring to the principles of this methodology.

5.4. Where green finance is fully attributed and expected impacts are confirmed at the framework level, 100 per cent green finance will be attributed to all sub-operations, when:

a. the project documentation includes confirmation that sub-projects fully meet green finance criteria

b. the specific policy statement for the sub-operation incorporates relevant measures

c. all green finance impacts for the sub-operation are recorded and have references and supporting impact calculations.

5.5. If the attribution based on the framework or list of pre-assessed technologies is not suitable, sub-projects will be assessed against the eligibility criteria detailed in the financing agreement between the

90 The list of technologies and minimum performance requirements is available on the website of the Green Technology Selector. The Green Technology Selector is aligned with the eligibility criteria of this methodology. See Green Technology Selector (n.d.). The list of technologies and minimum performance requirements will be published on the website of the respective operation (for example, the Bank's Green Economy Financing Facility (see EBRD, n.d.).

EBRD and the PFI. The eligibility is evidenced by an assessment report, which is reviewed and approved by the Bank.

5.6. Where a financial intermediary operation includes innovative products not covered by, or deviating from, its standard eligibility criteria, any green finance eligibility will be tailored and based on an assessment aligned with the principles of this methodology. Examples might include eligibility criteria based on the implementation of green practices, growth in the supply of green products or operations consistent with the client commitment route set out in Section 3.

5.7. For other financial intermediary transactions that are not fully eligible for green finance, but which include green finance components, the green finance attribution will be:

a. determined based on the percentage of proceeds used for components eligible for green finance, where this is defined in the legal provisions with the client

b. predetermined based on the expected portfolio of sub-projects. Any assumptions for the determination of the green finance share should be justified and based on either experience of similar portfolios or market assessments.

5.8. The PFI will report to the EBRD on the portfolio of eligible sub-projects on an annual basis. Technical data will be provided to confirm the eligibility of any sub-project, based on which the performance of sub-projects will be evaluated and benchmarked against similar portfolios.

Guidance: mitigation finance

5.9. The expected climate mitigation impact for transactions with financial institutions is based on proxies, derived from realised portfolios of green finance transactions that provide a generic indication of the portfolio composition of sub-transactions that can be expected.[91] These impact mitigation proxies are calculated using the last three years of sub-transactions data reported to the EBRD under relevant transactions with PFIs. These include best available estimates of the post-investment impact of each sub-project. Proxies of impact per €1 million of investment are used to estimate, prior to investment, avoided CO_2e emissions (tonnes per year), energy savings (GJ per year) and renewable energy capacity generated (MW).

Guidance: adaptation finance

5.10. For intermediated operations, estimating adaptation finance relies on a robust understanding of the activities that can contribute to adaptation within the geographical and sectoral scope of the transaction, and the capacity of the client to use this information to scope, implement and monitor these activities.

5.11. The process for tracking adaptation finance in intermediated financing identifies adaptation activities by following three steps:

Step 1. Context of vulnerability

5.12. The client has an understanding of climate change vulnerabilities and adaptation activities within the geographical and sectoral scope of the transaction, based on existing national, regional or local adaptation plans, other relevant information sources or an assessment developed by the EBRD.

91 Proxies are used due to a lack of reliable information on future sub-transactions of financial institutions at the time of transaction approval. If reliable information about the nature of sub-transactions is available, other assumptions will be used.

Step 2. Statement of intent

5.13. The recipient has a preliminary project pipeline or an initial list of activities covering the scope of the EBRD's transaction. If such a pipeline does not exist, the intermediary undertakes to develop and deliver one. In both cases, such a pipeline contributes to reducing climate change vulnerabilities and does not undermine relevant adaptation strategies and plans. This commitment should be reflected in project documentation and realised by the time the EBRD's finance is fully utilised.

Step 3. Capacity of the client

5.14. The recipient has the institutional capacity to identify and report on adaptation activities, or should otherwise commit to strengthening that capacity. Evidence of this capacity could include dedicated responsibility for climate change adaptation, a climate risk management system, the disclosure of physical climate risk, or other evidence of processes that can support the identification of physical climate risk and adaptation activities.[92]

5.15. If these three steps are met, then the adaptation activities are disaggregated from other activities in the transaction, and adaptation finance is estimated following the approach set out in Section 4, under "Step 4: Estimating adaptation finance". The approach to disaggregation depends on whether the project pipeline is known or undefined as follows:

a. *When adaptation activities in the project pipeline are known*. Adaptation finance is estimated by disaggregating adaptation activities from other activities included in the initial project pipeline and applying the percentages set out in Step 4 to those activities.

b. *When adaptation activities in the project pipeline are undefined*. Adaptation activities are estimated using a projected allocation of activities that contribute to adaptation.[93] The projected allocation can be based on the percentage of the client's existing investment portfolio financing adaptation activities, a client survey, a market assessment or experience from previous similar operations. The EBRD will periodically review actual disbursements to inform future transactions of a similar nature.

Guidance: nature finance

5.16. Eligibility criteria are based on the nature finance taxonomy. The EBRD identifies technologies already eligible for green finance consistent with the attribution steps for nature-positive or nature-mainstreaming finance.

5.17. As an example, transactions are eligible for nature finance when they finance technologies or products where the manufacturer shows the requisite substantial resource efficiency benefits or a documented reduction in drivers of nature loss in agricultural, residential, commercial or industrial uses, where there are clear local benefits to biodiversity or ecosystem. Eligible technologies might include those that reduce water consumption in land-based aquaculture, agriculture and irrigation, for example, through drip irrigation, water recycling solutions, technologies that reduce plastic use in industrial production or commercial operations, and technologies that reduce emissions of air pollutants that are harmful to biodiversity or ecosystem services.

92 Institutional capacity considerations may also be part of the Bank's engagement with a PFI on transition planning (see the Bank's methodology to determine the Paris Agreement alignment of EBRD investments [EBRD, 2024b]).

93 Where feasible, the projected allocation should be reflected in the policy statement.

Green finance attribution for trade and supply-chain finance

5.18. This guidance covers green finance eligibility for unfunded trade finance instruments under the EBRD's Trade Facilitation Programme (TFP) covering guarantees (standby letters of credit) issued by the EBRD and cash advances to PFIs. It also includes guidance for supply-chain finance that generally follows a similar approach for attribution.

5.19. Trade operations under the TFP have two distinct features that require a tailored approach:

a. Operations include multiple, short-term sub-transactions, with tenors often less than one year. Consequently, the Bank's financial exposure to an operation will change rapidly and cannot be predicted before year end, when the Bank reports its annual green finance volumes.[94]

b. The use of proceeds for each sub-transaction is not defined at the operational level (that is, at the PFI level), due to the wide range of commodities and products that TFPs generally support. Consequently, a green finance attribution share cannot be determined at the time of sub-transaction approval.[95]

5.20. As a result of these features, the green finance attribution of trade facilities takes place after approval and is based on the assessment of eligibility of individual sub-transactions. The green finance share for each sub-transaction is determined on the basis of submitted documentation related to the underlying assets (that is, excluding the cost of goods transportation, for example) according to set green finance eligibility criteria. Based on the cumulative eligibility of sub-transactions, the green finance share at operation level is then attributed.

5.21. The volume of green finance the Bank reports for trade and supply-chain finance is based on the sub-transactions with outstanding balances as at 31 December of the reporting year.

5.22. Trade sub-transactions are automatically considered eligible for green finance when the trade instrument consists of assets in the following categories:

a. technologies listed in the GTS (including processing and production lines for components or equipment dedicated to technologies listed in the GTS)

b. technologies, components, equipment or infrastructure dedicated exclusively to use in renewable energy, energy-efficiency improvement or other low-carbon technologies, in line with the list of eligible activities in the Common Mitigation Principles[96]

c. environmental products and commodities that meet internationally recognised certification standards that deliver climate mitigation, adaptation or other environmental benefits

d. commodities supporting the circular economy, including, but not limited to, through trade in scrap metal, scrap tyres, post-consumer plastics and post-consumer textiles.

94 Supply-chain finance has a similar structure, with sub-operations including multiple sub-transactions, consisting of invoices from eligible suppliers with maximum maturities of less than one year.

95 The use of proceeds for supply-chain finance is similarly not defined at operational level, but is based on purchases made from a defined set of suppliers, where the operation provides the option for suppliers to receive early payments against invoices raised to anchor buyers.

96 Such as the following activities on the MDB-IDFC climate mitigation positive list: renewable energy projects as defined in Category 2.1; carbon capture and storage systems as defined in Category 12.5; solid waste management as defined in Categories 7.1 to 7.12; charging stations and other infrastructure, parts and accessories for electric or hydrogen vehicles with zero tailpipe emissions; and projects producing components, equipment or infrastructure qualifying in the above categories.

5.23. For assets that do not fall into these categories, a specific assessment will be made with reference to the principles of this methodology.

5.24. The eligibility of supply-chain finance is determined at the supplier level, and sub-transactions associated with a supplier are attributed as green finance where the supplier:

a. measurably reduces its environmental impacts, such as GHG emissions, and this is reported through supplier reporting frameworks and associated platforms, such as the Carbon Disclosure Project, the Global Reporting Initiative, Ecovadis or other internationally recognised providers

b. sets targets to reduce its environmental impacts, as verified by internationally recognised standards, such as the Science-Based Targets initiative (SBTi),[97] or

c. implements a low-carbon investment plan of activities eligible on the Bank's "positive lists", as set out in paragraph 3.6.[98]

5.25. Clients should provide the EBRD with sufficient information to estimate the relative and absolute green outcomes for each transaction. While green outcomes associated with each transaction are estimated, because of the short-term nature of these investments, the outcomes are not recorded or reported as part of the Bank's own green finance reporting, nor are they subject to the requirement to prepare a project monitoring plan.

Specific debt instruments

5.26. The Bank finances many varieties of debt instrument, so this section covers only those instruments where additional information is necessary due to the importance of green finance market standards.

Green finance attribution for green and sustainable bonds with defined use of proceeds

5.27. Bonds with a defined use of proceeds include green bonds and sustainability bonds. Green bonds are a type of bond instrument where the proceeds are used exclusively to finance or refinance, in part or in full, new or existing eligible investments with green-eligible uses of proceeds.[99] Sustainability bonds are bond instruments where the proceeds are exclusively applied to finance or refinance a combination of green and social projects.[100]

97 See SBTi (2022).

98 Where the anchor buyer for the supply-chain finance investment is based in the EBRD's regions, the client's commitment route, set out in Section 3, may also be used for green finance attribution, provided that the green outcomes to be achieved relate to the client's supply chain, such as setting a Scope 3 emission reduction target. In this case, the anchor buyer's commitment to a Scope 3 target would need to follow the requirements of paragraphs 3.14 to 3.19 to determine the green finance attribution.

99 There is no cap on the cumulative proceeds of a green bond used to refinance existing eligible green projects. An estimate of the share of refinancing should be provided to the Bank.

100 Other forms of labelled bonds that deliver green outcomes, such as blue bonds or EU green bonds issued in compliance with the European Green Bond Standard, are considered a subset of green bonds and, as such, would follow the same attribution requirements as green bonds.

5.28. Green bonds are considered to be 100 per cent green finance eligible when:

a. they are issued in full compliance with the ICMA Green Bond Principles (GBPs) or the Climate Bonds Standard of the Climate Bonds Initiative (CBI); this should be confirmed by an external review and validated by the EBRD[101]

b. the bond proceeds shall not be allocated to investments that are on the EBRD's exclusion lists,[102] and

c. the green bond framework and bond proceeds are aligned with the green finance principles set out in Section 2, or the proceeds are aligned with the EU Taxonomy technical screening criteria and the "do no significant harm" principle.[103]

5.29. For a sustainability bond to be eligible for green finance, it must adhere to the criteria established for green bonds. The green finance attribution of sustainability bonds will be determined based on the share of green investments indicated by the issuer before issuance and indicatively included in the submission documentation.[104]

5.30. An external review should include at least one of the following elements:

a. a second-party opinion (including advice from parties with recognised expertise in environmental sustainability or other aspects of the issuance of a green bond), or

b. a verification (bonds, associated framework or underlying investments are independently verified by suitably qualified parties, such as auditors with expertise in this area), or

c. a certification (bonds, associated framework or use of proceeds are certified by an external and recognised expert in green assessment standards, tested by qualified third parties or certifiers), or

d. a bond's scoring or rating (bonds or associated framework are rated by qualified third parties, such as specialised research providers or one of the international rating agencies).

5.31. The client will select a provider and define the type of review. An external review can be partial, covering only certain aspects of the client's green bonds or associated frameworks, or a full review, assessing alignment with all four core components of the GBPs, Sustainability Bond Guidelines (SBGs) and Social Bond Principles (SBPs).[105] The external review should be disclosed publicly, at least in summary form. It should be available during due diligence and before investment signing, but business confidentiality requirements may constrain publication.

101 See ICMA (2022). As part of its appraisal, the EBRD will complete a review of the issuer's green bond framework, the external review, and the use-of-proceeds standards and benchmarks against the green finance eligibility criteria. A similar approach to green bonds will be used to determine the green finance eligibility of green loans that are fully in line with the Loan Market Association's (LMA) Green Loan Principles.

102 Exclusions include the general exclusions listed in Section 2, activities listed in the EBRD's Environmental and Social Exclusion List (see Appendix 1 of EBRD [2024a] and the fossil fuel-related activities excluded under the EBRD's Energy Sector Strategy [EBRD, 2023a]).

103 In line with criterion 2a, the use of proceeds must comply with the specific ESP provisions covering capital market transactions.

104 These bonds are expected to be fully in line with the SBPs or the SBGs, or both.

105 An additional external review is not required for issuers that have already obtained an external review for outstanding green bonds or their green bond framework.

5.32. For reporting purposes, bond issuers are expected to provide the EBRD and other investors with:[106]

a. A list and description of all the investments to which the green bond proceeds have been allocated and their expected impacts, at least once a year, in line with the relevant ICMA principles. Where confidentiality agreements, competitive considerations, the local regulatory environment or a large number of underlying projects limit the amount of detail that can be made available, the information should be presented on an aggregated portfolio basis (for example, percentage allocated to specific investment categories).

b. An impact report on the mitigation, adaptation, nature-related benefits and other environmental benefits of the green use of proceeds, as well as the underlying methodology used to estimate the impacts. Alternatively, they should provide sufficient information to assess their relative and absolute environmental impact. The impact report should follow GBP guidance.[107] If an impact report is unavailable at the time of issuance, the EBRD will require a commitment from the issuer to provide this report within the term of the bond.

c. Sufficient information to estimate the positive environmental impact of the use of proceeds and a set of environmental KPIs, and

d. A post-issuance impact report illustrating the outcomes achieved by green investments to which the proceeds have been allocated. Divergences between pre- and post-investment assessments should be analysed as much as possible.

Green finance attribution for bonds with defined green-eligible uses of proceeds

5.33. Bonds with partially green-eligible uses of proceeds have green finance attributed based on the allocation of proceeds to green-eligible activities. Such bonds are usually conventional bonds (that is, general corporate-purpose bonds) and not typically "labelled" or structured as green or sustainable by market standards, so referred to as "vanilla" or "unlabelled" bonds.

5.34. The green finance attribution of such a bond is based on the proportion of the use of proceeds that is eligible for green finance. This can take the following forms:

a. EBRD participation in the issuance that is not conditional on the specific allocation or commitment of green-eligible use of proceeds. In this case, the green finance ratio is based on the share of green-eligible activities within the bond as a whole (that is, the green finance ratio equals the total volume of eligible activities financed by the bond as a share of total volume issued).

b. EBRD participation in the issuance that results in additional green-eligible financing activities, in other words, commitments to finance future investments in a specific activity or set of green activities. In this case, the financial value of those activities is allocated to the EBRD's participation (that is, green finance attribution equals the volume of eligible activities as a share of EBRD participation).[108]

106 The issuers should make public the use-of-proceeds and impact reporting to the extent that the local regulatory framework allows.

107 See ICMA (2020).

108 "Additional" activities are understood as new loans or leases, components or projects that are green-finance eligible and are committed to be deployed by the issuer as the result of EBRD participation in the issuance. In the case of intermediated finance, this would apply to a general corporate purpose bond that does not have a defined use of proceeds, where the issuer commits to deploy an amount agreed with the EBRD to new eligible activities before the bond's maturity date.

5.35. For bonds with green-eligible use of proceeds, the general requirements of Section 3 on the refinancing of existing assets apply in the attribution of green finance.

5.36. To be eligible for green finance attribution, the components or investments specified in the issuance that are not attributed as green finance cannot include activities or investments that fall under the EBRD's green finance exclusions, listed in paragraphs 2.15 to 2.17.[109]

Green finance attribution for sustainability-linked bonds and loans

5.37. For all SLBs and SLLs, green finance attribution follows the requirements set out under the commitment to green outcomes and targets in Section 3 (the proceeds of SLBs or SLLs are, in most cases, intended to be used for general purposes, meaning granular information on green-related investments is not possible). This guidance provides supplementary information for the specific application of this methodology in the case of SLBs and SLLs, which are subject to market standards.

5.38. Sustainability objectives commonly stem from the sustainability strategy of the issuer or borrower, as outlined in the SLB or SLL framework. These frameworks set out predefined KPIs, assessed against predefined SPTs, and are the basis for green finance attribution.

5.39. To be eligible for green finance, SLBs must be issued fully in line with the ICMA's SLBPs and SLLs must be structured fully in line with the LMA's SLLPs.[110] Such alignment will be determined through either:

a. an external review (second-party opinion, or SPO), which is a requirement for all SLBs

b. an EBRD assessment of relevant features of the transaction against SLLPs, with reference to criteria set out in Section 3.[111]

5.40. Where an external reviewer is used, their rating system and evaluation of the ambition and relevance of the SPTs and KPIs will provide the input for assessing the materiality of the KPIs and ambition of the SPTs of the SLBs or SLLs. If the reviewer rates the ambition of the SPTs in the top tiers of the rating system, such as "ambitious" or "highly ambitious", this will be sufficient, without supplementary internal assessment, to meet the EBRD's sub-criteria for the determination of ambition.[112] Where the external reviewer assigns a lower level of ambition, a lower green finance share will be attributed in line with the provisions of Section 3.[113]

Specific equity investments

5.41. The section provides guidance for direct equity investments and EBRD participation in equity funds.

109 Non-green-eligible components or projects must not include activities or projects that fall under the exclusions list, in line with criterion 2b of Section 2.

110 See ICMA (2023) and LMA (2023).

111 Where an SLL is being raised by an entity with significant absolute Scope 1 and 2 emissions, greater than 100kt CO_2e, or with exposure to coal for energy generation, an external review is sought to provide greater assurance of consistency of the SLL with the SLLPs, as well as provide a second opinion on the relevance of underlying KPIs and the level of ambition of the SPTs.

112 Different SPO providers use different labels in their rating scale, so the determination of the appropriate tier that corresponds to the EBRD's ambition and relevance criteria will vary by provider.

113 In cases where the EBRD has been involved in the development of the KPIs and SPTs from an early stage, before an SPO provider has been appointed, the determination of the SPO may be overruled through an internal assessment based on the greater availability of information available to the EBRD on the materiality or ambition of targets.

Guidance on attribution and impact estimation for direct equity projects

5.42. The Bank takes the use-of-proceeds route where an investment or investment components are defined in the legal documentation (such as the shareholder agreement) between the Bank and the equity investee. Where the use of proceeds cannot be defined, equity transactions can utilise the client commitment attribution routes set out in Section 3, centred on the equity investee's commitment to achieving green outcomes during the intended equity holding period.

Determining green outcome reporting for equity projects with a defined green use of proceeds

5.43. Where the transaction includes equity raised both in and outside the EBRD regions, the pro rata attribution of the outcomes will be focused on the expected portion of equity raised/proceeds in the EBRD regions.

5.44. In certain cases, the EBRD will provide the early-stage finance for a pipeline of future investments, with the use of proceeds to be developed during the equity holding period. In such cases, the EBRD may also finance these projects at a later stage through follow-on debt investments. This follow-on debt finance is green finance eligible if it is not considered refinancing, per the requirements of paragraph 3.9, but the impacts will not be reported twice.[114]

5.45. There are exceptions to this reporting principle, specifically where there is:

a. An unspecified pipeline for green finance-eligible use of proceeds, where the financial value of the Bank's equity investment is clearly defined, but the investments are not known, making the estimation of impacts impossible.

b. A significant number of potential projects with various probabilities of success, where the financial value of the Bank's equity investment will only be allocated to those pipeline projects that succeed. In such cases, a conservative estimate of the green finance impacts should be made based on the scale of the use of proceeds that the client has allocated to the future investments, rather than the full potential impact were all investments in the pipeline to materialise. If the EBRD then invests in follow-on debt, any difference in the green outcome calculated based on the known investment characteristics should be allocated to this follow-on debt finance.

Green finance eligibility for equity participation in green companies

5.46. The EBRD may provide equity without specified use of proceeds to companies that own, operate or produce exclusively green finance-eligible assets or products (for example, a green power company). In these cases, EBRD finance should demonstrate incremental environmental benefits. Consequently, provided that the equity raised by the company is associated with supporting growth in its green finance-eligible activities, the EBRD's finance will be attributed as 100 per cent green finance. The physical impacts associated with these transactions will be based on the incremental green activities, typically measured using output or production, that the transaction will facilitate. For companies that are only partially green, the client commitment attribution routes set out in Section 3 are relevant where the investment targets the further greening of client operations.

114 For example, the EBRD may finance early-stage project preparation and permitting for a pipeline of wind farms through an equity investment, then provide debt to finance construction at a later stage. In this example, both investments would be green finance eligible. However, any green finance impacts associated with the follow-on finance should not be reported, so as to avoid double counting.

Guidance on attribution and impact estimation for equity funds

5.47. For investments involving participation in thematic funds with a core focus on green impact objectives, the EBRD's commitment is 100 per cent green-finance eligible, as long as it demonstrates consistency with the principles of this methodology, as set out in Section 2.[115]

5.48. For investments involving the EBRD's participation in generalist (sector-agnostic and unlabelled) equity funds, the green finance of the Bank's equity commitment will be based on the minimum amount of green investment the fund manager commits to implementing within its portfolio companies. In general, the green finance attribution will be calculated by dividing the green investment commitment of the fund by the total fund capital.[116]

5.49. In other cases, the EBRD can play an instrumental role in incorporating green investment considerations into the generalist fund's investment or value-creation strategy, or both. Where this is achieved, the green finance share is calculated as the ratio of the minimum amount of green investment the fund has committed to, compared with the EBRD's investment in the fund. The instrumental role of the EBRD can be confirmed if the fund manager:

a. adopts green investment policies consistent with the qualifying principles of this methodology, or which the Bank otherwise deems satisfactory (for example, the EU Taxonomy criteria for substantial contribution to one of the six environmental objectives)[117]

b. commits in the legal documentation between the fund manager and EBRD to implementing a minimum amount of green investment, and

c. agrees to post-investment reporting on green investments and associated green finance impacts, in line with the provisions for defining a post-signing monitoring plan, noting the expectations for equity funds in paragraph 5.51.

5.50. For all equity funds, green finance attribution may also be based on the attribution process for assessing commitments to green outcomes and targets in Section 3, whereby the fund manager commits to achieving eligible KPIs and SPTs, for example, the reduction of GHG emissions at portfolio level. The appointment of an external reviewer to monitor the achievement of the SPTs is not required, but may be beneficial to the transparency of impact reporting, particularly for those fund managers with a limited capacity for or track record in sustainable investing.

Impact reporting for equity funds

5.51. The "blind pool" nature of equity funds means that, at the time of signing, the EBRD has limited visibility over the companies or investments in which generalist funds invest, the type of green-eligible measures or investments to be implemented and the associated environmental impact. This makes it

115 For example, compliance with the EU Taxonomy criteria for substantial contribution may serve as the basis for green finance attribution, and supplementary EBRD specific exclusions would not need to be included where "do no significant harm" criteria were appropriately implemented. Article 9 funds under the EU Sustainable Finance Disclosure Regulation (see European Union, 2019) must comply with the principle of not causing significant harm to any environmental or social objective, while investee companies must follow good governance practices, so such funds meet this criterion by default.

116 Green investments may include both investments by the fund in green companies/assets, such as renewable energy or green technologies, or green capex implemented at the investee company level during the holding period of the fund (for example, resource- and energy-efficiency measures), irrespective of the financing source for such capex (equity, external debt or internally generated cash).

117 When applying the EBRD principles of green finance attribution in Section 2, the fund manager will be required to include the green finance exclusions listed in criterion 2b as part of its green investment policies or as part of EBRD transaction documentation.

difficult to quantify the expected environmental impact, particularly for generalist funds. Accordingly, transactions involving generalist funds are exempt from producing a detailed pre-investment assessment of the environmental benefits, estimating environmental impact indicators, and producing for the purposes of green finance attribution a detailed GPMP with an indication of the scale and category of expected environmental indicators. Post-investment assessment and reporting of the green investments and their impact will be required, however.

5.52. Other thematic funds may face the same constraints as generalist funds in terms of estimating pre-investment impact, where the investment strategy is broad ranging. In this case, the same exclusions from pre-investment impact estimation apply (where a rationale is given and validated as part of the EBRD's project approval process).

5.53. The provisions set out in paragraph 5.44 also apply to thematic funds investing in a pipeline of eligible green investments.

Supplementary materials

Annex 1. Outcome indicators used in green finance attribution

A1.1. This annex covers two areas:

a. the outcome indicators used for green finance attribution

b. the approach to estimating climate resilience outcomes (CROs).

Outcome indicators used for green finance attribution

A1.2. The table summarises the standardised set of indicators used to measure physical outcomes for eligible green finance activities.

Theme	Indicator	Description of indicator	Unit
GHG reduction	Relative or net emissions	Annualised estimations of the GHG emissions, calculated as the difference between the project emissions and baseline emissions using the same assessment boundary. Depending on the calculation procedures adopted by an IFI, relative emissions can be calculated by subtracting baseline emissions from project emissions, or vice versa.	Tonnes per year
	Relative or net emissions – Scope 1 (tonnes/year)	Direct GHG emission reductions/avoidance from sources owned or controlled by the investee.	
	Relative or net emissions – Scope 2 (tonnes/year)	Indirect GHG emission reductions/avoidance from the generation of purchased electricity, heating, cooling and steam consumed by the client of the project financed, but not produced by the investee. Scope 2 emissions physically occur at the facility where electricity, heat or cooling energy is generated.	
	Relative or net emissions – Scope 3 (tonnes/year)	All other indirect emission reductions caused by the project, but which occur from sources not owned or controlled by the investee. For example, emissions avoided from the production or extraction of raw materials or feedstock, avoided use of road infrastructure, avoided use of sold products and services, and so on.	

Theme	Indicator	Description of indicator	Unit
Absolute GHG emissions	Absolute emissions CO_2e	Annualised estimations of GHG emissions from sources included in the assessment boundary that occur in a project scenario. Project emissions are estimated in tonnes of CO_2 equivalent (tCO_2e) and calculated using the 100-year time-horizon global warming potential (GWP) values provided in the latest Intergovernmental Panel on Climate Change (IPCC) Assessment Report adopted by UNFCCC.	Tonnes per year
	Absolute emissions CO_2e – Scope 1	Direct GHG emissions from the sources that are affected by the investment project and that are owned or controlled by the investee.	Tonnes per year m^3 per year
	Absolute emissions CO_2e – Scope 2	Indirect GHG emissions from energy sources not owned or controlled by the investee, but directly utilised by the investment project. This includes emissions associated with electricity, heating or cooling purchased for the investee's activities.	
	Absolute emissions CO_2e – Scope 3	Other indirect GHG emissions from sources that are upstream or downstream of a value chain and not owned or controlled by the investee (see IFI methodology for more information) (UNFCCC, n.d.).	
Water efficiency	Water saved	Reduction in the amount of water used annually by and/or annual increase in the amount of water made available by the organisation during the reporting period resulting from the EBRD-financed project.	
Energy efficiency	Primary energy saved	Amount of primary energy reduced during the reporting period.	GJ/year m^3/year
Materials efficiency	Materials reduced	Amount of materials or waste reduced by the organisation during the reporting period through programmes for substitution, recycling or recovery.	Tonnes/year, specified for type of material or waste
Renewable energy	Renewable energy capacity installed	Amount of renewable electricity generation capacity installed by the project to be funded by the Bank during the reporting period.	MW
	Renewable energy – electricity produced	Amount of electricity generated by the project from renewable sources during the reporting period, including both the electricity produced for internal use and/or that for sale.	MWh/year

Theme	Indicator	Description of indicator	Unit
	Renewable energy – heat produced	Amount of thermal energy produced by the organisation during the reporting period.	GJ/year
Drinking water	Drinking water – volume provided	Annual volume of clean and good-quality water (EU- or WHO-compliant) provided by the project.	m^3/year
	Drinking water – number of people connected	Number of people benefiting from clean and good-quality water (EU- or WHO-compliant) provided by the project.	Number of people connected to the water network
Wastewater	Wastewater treated	Annual volume of wastewater treated (effluent quality EU-compliant), expressed as cubic metres per year.	m^3/year
	Wastewater reduced	Wastewater avoided or reduced,[118] expressed as cubic metres per year.	m^3/year Tonnes/year
Waste	Waste treated and/or disposed of	Annual amount of waste treated and/or disposed of appropriately (EU-compliant disposal facility).	
	Waste recovered, recycled or re-used	Annual amount of waste recovered, recycled or re-used in line with EU standards.	Tonnes/year
Air emissions/ pollution	Particulate matter (PM) reduced	Annual reduction in air emissions of PM	Tonnes/year
	SO_2 reduced	Annual reduction in air emissions of sulphur dioxide (SO_2)	Tonnes/year Hectares (ha)
	NO_x reduced	Annual reduction in air emissions of nitrogen oxides (NO_x)	
	VOCs reduced	Annual reduction in air emissions of volatile organic compounds (VOCs)	
Ecosystems	Ecosystem area restored or having improved resilience or reduced degradation	The land or aquatic/marine ecosystem area that as a result of the project incorporated and/or improved sustainable land management practices.	
Climate adaptation – physical indicators	Increased water availability	Additional water made available as a result of the project, either through water savings or through the provision of additional usable water.	m^3/year
	Increased energy availability	Additional energy made available as a result of the project, either through energy savings or through increased energy generation.	MWh/year
	Increased agricultural potential	Additional capacity for agricultural potential achieved as a result of the project, through improvements in soil	Tonnes yield/year

118 Projects that result in "wastewater reduced" are those involving process optimisation at industrial facilities: the volume of water abstracted by the facility does not change (or increases), but thanks to the new process, less wastewater is produced (for example, in textile manufacturing). Projects that result in less wastewater being produced because of less water being abstracted fall under the category of "water efficiency" and their green outcomes should only be reported as water savings (m^3/year).

Theme	Indicator	Description of indicator	Unit
		quality, such as reduced soil erosion, increased soil carbon content or reduced soil salinity.	
	Increased human health/productivity	Improvements in human productivity due to improved health and well-being as a result of the project.	QALYs/year
	Reduced weather-related disruption	Reduction in the amount of time that a system or elements of a system are rendered inoperable (in other words, lost operational expenditure) due to acute climate risks, such as increased numbers of extreme weather events or chronic climate risks, such as increasing hydrological variability or greater heat stress.	Days/year
	Reduced weather-related damage	Reduction in the damage to assets (or lost capital expenditure) due to acute climate risks, such as more frequent extreme weather events or chronic climate risks, such as increasing hydrological variability or greater heat stress.	Risk frequency or service life
Climate adaptation – valorised indicators (continued overleaf)	Increased water availability – valorised	Monetary value of additional water made available as a result of the project, either through water savings or through the provision of additional usable water.	€/year
	Increased energy availability – valorised	Monetary value of the additional energy made available as a result of the project, either through energy savings or through increased energy generation.	€/year
	Increased agricultural potential – valorised	Monetary value of additional capacity for agricultural potential achieved as a result of the project through improvements in soil quality, for example, reduced soil erosion, increased soil carbon content or reduced soil salinity.	€/year
	Increased human health/productivity – valorised	Monetary value of improvements in human productivity due to improved health and well-being as a result of the project.	€/year
	Reduced weather-related disruption – valorised	Monetary value accrued from the reduction in the amount of time a system or elements of a system are rendered inoperable (in other words, lost operational expenditure) due to acute climate risks, such as increasing numbers of extreme weather events, or chronic climate risks, such as increasing hydrological variability or greater heat stress.	€/year
	Reduced weather-related damage	Monetary value of the reduction in the damage to assets (in other words, lost	€/year

Theme	Indicator	Description of indicator	Unit
		capital expenditure), acute climate risks, such as more frequent extreme weather events, or chronic climate risks, such as increasing hydrological variability or greater heat stress.	

Approach to determining and reporting climate-resilience outcomes

A1.3. The approach described builds upon the general requirements for the estimation of project-level impacts to take into account the context-specific nature of climate adaptation investments.

Box A.1: Example of monitoring and evaluation indicators applied in an adaptation project

Example project	Inputs	Activities	Outputs	Outcomes	Impacts
Climate-resilient port upgrade	€120 million climate adaptation finance Detailed technical studies	Design and construction of improved breakwater	Breakwater heightened by 2 metres	Days of downtime due to extreme weather conditions reduced by 10 per year	Contribution to resilience to longer- term impacts of climate change

A1.4. Pre-investment outcomes are described and, where possible, quantified for adaptation projects, in the manner described in the following approach section. Such outcomes are not measured and reported after the fact, as a post-investment cause-and-effect attribution is not possible. However, where feasible, relevant activities will be monitored after the fact for the EBRD's adaptation investments and included in the GPMP.

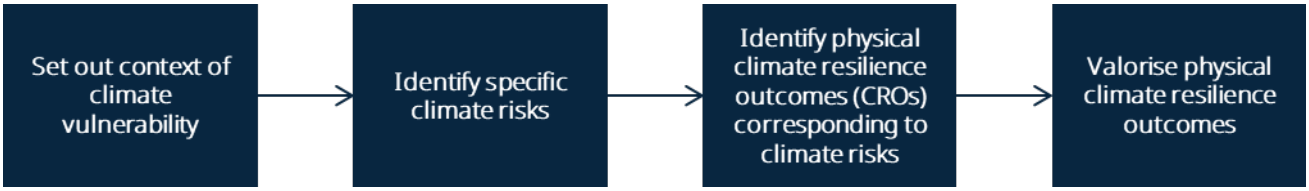
Approach

A1.5. The starting point for assessing CROs is to determine the context of climate change vulnerability for the project in question. This makes it possible to identify the climate change risks that are relevant to the project. It is entirely conceivable that more than one climate risk may be relevant to a given project, at either the project level, in the case of adapted activities, or the wider system and systemic level for activities that enable adaptation. It is important to base this step on a robust assessment of climate change risk and climate change resilience.

A1.6. Once the relevant climate risks have been identified, they are used to determine the physical CROs that the project aims to deliver in response to each climate risk on an annualised basis. These physical CROs express, in measurable units, the adjustment the project achieves in response to the climate risk identified. For each climate risk, it is possible to have more than one intended physical CRO.

A1.7. Physical CROs may then be valorised over the assumed economic lifespan of the assets or systems being financed (and may be summed if there is more than one intended CRO) to give a total valorised CRO for each project. This gives a measure of the value generated by the adaptation adjustment, which the project delivers in response to climate stimuli. Figure A.2 summarises this.

Figure A.2: Process for identifying appropriate indicators of climate resilience outcomes



Climate hazards

A1.8. Climate hazards are categorised as either acute or chronic.[119] Acute climate hazards are associated with extreme and often unpredictable weather events. Chronic climate hazards are associated with longer- term, progressive shifts in climate or weather patterns.

A1.9. The EBRD has identified 11 types of climate hazard relevant to its investment operations, as listed in Table A.1.

Table A.1 Acute and chronic physical climate hazards

Temperature-related			Wind-related	Water-related					Solid mass-related	
Chronic	Acute		Acute	Chronic		Acute			Chronic	Acute
Increasing mean temperatures	Extreme heat event	Wildfires	Extreme wind event	Increasing water stress	Sea-level rise	Drought	Flood	Heavy rainfall event	Erosion	Extreme mass movement

A1.10. Climate change is fundamentally a physical process, driven by developments in the global climate system that result in physical phenomena, such as changes in temperature and patterns of precipitation. The EBRD, therefore, considers it appropriate to define climate resilience results in physical terms. The Bank has identified six types of intended physical CRO as relevant to its investment operations in the face of growing variability in climate:

a. increased availability of water
b. increased availability of energy
c. increased agricultural potential
d. improvements to human health and/or productivity
e. reduced weather-related disruption
f. reduced weather-related damage.

A1.11. Table A.2 demonstrates how each of the 11 climate hazards is indicatively linked to one or more of the six CROs.

119 Physical climate hazard refers to the potential occurrence of climate-related physical events or trends that may cause loss of life, injury or other health impacts, as well as damage and loss to property, infrastructure, livelihoods, service provision and environmental resources. Climate risk equals sensitivity multiplied by exposure.

Table A.2: Indicative links between climate hazards and climate resilience outcomes

Climate hazards	Physical climate resilience outcomes
Increasing water stress	Increased availability of water
Drought	
All climate hazards	Increased availability of energy
Erosion	Increased agricultural potential
Increasing water stress	
Drought	
Increasing mean temperatures	
Extreme heat event	
Extreme heat event	Improvements to human health and/or productivity
All acute climate hazards	Reduced weather-related disruption
All acute climate hazards	Reduced weather-related damage

A1.12. Projects with adaptation activities must be able to describe how they will deliver at least one of these outcomes in order to qualify as a climate adaptation investment. Furthermore, the CROs of climate adaptation projects should be quantified and valorised where possible (for example, where relevant data can be gathered to calculate CROs). These quantifiable outcomes are measured, on an annualised basis, as the change (delta or Δ) that the project delivers relative to the "without-project" baseline, using physical units per year.

A1.13. It is vital to establish clear boundaries for reporting green climate resilience results. These boundaries should reflect the intended use of proceeds for EBRD financing but, in some cases, may also need to reflect any supporting or interconnected systems on which the project or system being financed may depend (for example, the electricity supply for a port). Boundaries for activities that are adapted will be more closely related to the project boundaries at asset level, while boundaries for activities that enable adaptation will need to consider the wider system in which the adaptation is delivered.

A1.14. Establishing a realistic and viable baseline is an important initial step in assessing the physical CROs of a project.

a. In the case of adapted activities in a rehabilitation or brownfield project, the baseline will usually be the "without-project" state of a system that has not yet been rehabilitated.

b. In the case of adapted activities in a new-build or greenfield project, the baseline will usually be a hypothetical scenario of project development that does not take into account climate change projections, in other words, a "no-adaptation" scenario.

c. In the case of adapted activities in a project that expands operations or capacity, the baseline will be a scenario of the resources that would be required to match the level of production achieved using the unimproved, "without-project" system or technologies (for example, a specific level of water efficiency). For the additional output related to increased capacity and/or extended operations, the system should be treated as a greenfield project. The baseline should be a benchmark for the climate resilience performance or non-performance of existing production.

d. In the case of enabling activities, the baseline will usually be a hypothetical scenario of a system where there are no activities that enable adaptation (in other words, a counter-factual "no-adaptation" scenario).

A1.15. A given project or system may be exposed to more than one climate risk and may deliver more than one CRO. However, in projects with multiple CROs, each outcome should typically belong to a different family of outcome (such as water, energy, agricultural potential, health or productivity, disruption or damage). Having more than one outcome from the same family may lead to double-counting and may only be permitted in exceptional cases.

A1.16. Physical climate resilience outcomes are calculated on an annualised basis against a "without-project" baseline. It is important to note that this reporting is based on current climate conditions and does not attempt to predict future climate conditions. However, robust information about climate change projections must be an integral part of project design and of setting out the context of climate vulnerability. Therefore, the CROs the project delivers should be viewed as conservative measures of the adjustment to the climate stimuli.

Valorised climate resilience outcomes

A1.17. The final step in the process entails valorising the physical CROs. This step is carried out differently for each "family" of physical CROs in order to arrive at a comparable monetary value, as shown in Table A.4.

A1.18. The valorised CROs are calculated over the assumed economic lifespan of the assets or systems being financed, using standardised economic lifespans (as set out in Table A.5) and the application of a standardised annual discount rate of 6 percent. In investments with more than one physical CRO, the outcome values should be summed to give a single CRO for the investment.

A1.19. The valorised CROs may then be used to calculate a CRO ratio, written as a percentage, which expresses the valorised climate resilience outcome per euro invested. This ratio should be calculated using total project value (TPV). For the purposes of this calculation only, in certain cases, the project TPV may be adjusted to determine the CRO-relevant TPV, which includes only the project costs that are directly associated with the assets or systems that deliver the CRO. Cost items that are not directly associated with the CRO (for example, land acquisition costs in building projects) are excluded.

Table A.4: Application of the valuation step for different families of physical outcome

Family of physical climate resilience outcome	Application of valuation step	Valorised outcome
Increased water availability	Annual additional water, measured on a volumetric basis (for example, m^3), is assigned a value using a shadow price of water (in €/m^3) that takes into account the full cost of production plus resource use and environmental externalities. The use of a shadow water price is important, as water prices in the EBRD regions are often highly distorted and not cost-reflective. In cases where increased water availability is estimated based on reduced effluent emissions, a suitable dilution factor should be used to estimate the expected increased availability of usable raw water.	Value of additional water (€)
Increased energy availability	The value of annual additional energy, measured in MWh, is determined using an appropriate energy price (€/kWh) that takes into account any distortions resulting from energy subsidies.	Value of additional energy (€)
Increased agricultural potential	Increased agricultural potential as a result of improved soil quality is estimated based on the annual increases in crop yield that can be expected as a result of improvements in soil quality. These estimations should be calculated on a project-by-project basis that takes into account both the specific improvement in soil quality and the crop or crops being produced. The Food and Agriculture Organization of the United Nations (FAO) provides useful methodologies and information on this subject (for example at http://www.fao.org/faostat/en/#data).	Value of additional potential agricultural production (€)
Improved human health and/or productivity	Annual improvements in human health or productivity may be measured using quality-adjusted life years (QALYs), which are valued using World Health Organization guidance that a QALY may be worth up to three times the per capita GDP of a given country.[120]	Value of additional QALYs (€)
Reduced weather-related disruption	Reduced disruption (measured in units of time, such as days per year) may be assigned a value by using the estimated unit costs of an hour or day of downtime (such as €/hour or €/day). This will be highly industry-specific or business-specific and should be estimated on a project-by-project basis, taking into account project-specific circumstances.	Value of avoided downtime (€)
Reduced weather-related damage	Reduced risk of damage (measured as a change in the risk frequency of a damaging extreme weather event) in the context of acute climate risks may be assigned a value by first determining what constitutes an extreme weather event in the specific context of the project, and then multiplying the difference in risk frequency by the total value of the asset in question. Reduced damage (measured as the change in the service life of an asset) in the context of chronic climate risks may be assigned a value by comparing the decrease in annual depreciation of the asset using estimations of pre-project and post-project service lives and the value of the asset.	Value of avoided damage (€) Value of extended asset lifespan (€)

120 See WHO (2002).

Table A.5: Assumed economic lifespans[121]

Sector	Reference period (years)
Railways	30
Roads	25-30
Ports and airports	25
Urban transport	25-30
Water supply or sanitation	30
Waste management	25-30
Energy	15-25
Broadband	15-20
Research and innovation	15-25
Business infrastructure	10-15
Other sectors	10-15

121 See European Commission (2021).

Annex 2. EBRD protocol for assessment of greenhouse gas emissions

A2.1. The EBRD is committed to estimating, on a pre-investment basis, the future GHG impact of the projects it finances, where these are likely to result in significant increases or reductions in emissions. Consistent with the Bank's transition mandate, the principal objectives are:

a. to provide a fit-for-purpose estimate of the change in GHG impact that each year's newly signed projects will have once fully implemented

b. to demonstrate the broader climate change mitigation benefits that an increasing number of EBRD projects are designed to achieve.

A2.2. Where possible, the assessment is undertaken during project appraisal.

A2.3. There is a wide range of potential approaches to developing a GHG assessment methodology to meet these objectives. The EBRD used several basic principles to narrow down the choice and shape its approach:

a. Transparency and clarity of definition: In any project, some choices may remain subjective. A project may be assessed in different ways for different purposes. It is, therefore, essential that choices and assumptions are clearly stated to preserve the usefulness of the assessment. Most important in this context is a clear understanding of a project's geographical and operational boundaries.

b. Conservatism: To minimise the risk of understatement of emissions or overstatement of savings, a conservative approach to assumptions should be taken wherever significant uncertainty exists.

c. Fitness for purpose: Where a GHG assessment is required to form the basis of financial transactions (for example, carbon trading), greater resources will generally be required to apply the more complex approaches involved. Where an assessment is carried out for information purposes only, simpler, less resource-intensive approaches may suffice.

A2.4. Project specificity versus general applicability: It may be necessary to strike a balance between the desire to achieve as much project-specific accuracy as possible and the desire for comparability that the use of common, consistent approaches provides across many projects of a given type.

Selection of projects and thresholds

A2.5. All direct investment projects are screened at the concept review stage of project appraisal and categorised according to the type of assessment needed. Some direct investment projects involving corporate loans are excluded from assessment when a lack of information to identify precisely how funds are used makes GHG assessment impossible.

A2.6. Most projects funded via PFIs are excluded from assessment on the grounds that they involve transfer of control to a third party. GHG assessment is undertaken, however, for certain financial intermediary framework projects, in which substantial funds are ring-fenced for investment by the financial intermediary in relatively large numbers of small energy-efficiency and renewable energy

sub-projects. Although individually small, the combined impact of many subprojects can be highly significant.

A2.7. The Bank's ESP mandates clients to collect and report the data necessary for a GHG assessment of projects where emissions are expected to exceed 20 kt CO_2e per year. Projects that are expected to result in a change in emissions, either positive or negative, of more than 20 kt CO_2e per year are subject to a pre-investment GHG assessment in line with this protocol. Projects that are expected to reduce GHG emissions by less than 20 kt CO_2e per year may also be subject to a GHG assessment.

Project boundaries

A2.8. The project boundary separates the entities (in other words, the facilities and operations) whose emissions are included in the assessment from those that are not. The project boundary is generally defined as the geographical boundary of the facility, but may need to include associated facilities and activities where these exist solely to serve the project. Where, for example, an investment involves a change from in-house production to external sourcing of a feedstock, it may be necessary to draw project boundaries to include external operations, thus ensuring no fundamental difference in the scope of service provision between the baseline and the post-investment scenario.

A2.9. Where an investment is a direct replacement for some or all of another, separate, existing facility (such as one owned by the same entity), this latter facility may be brought within the project boundary, provided the closure is certain to take place as a direct consequence of the project's implementation.

A2.10. The project boundary for renewable power generation projects is always regarded as encompassing the electricity grid in which they serve. By nature of their role, they are assumed to displace the emissions associated with other electricity generation on the grid. Specific grid studies may be undertaken to derive appropriate carbon factors.

A2.11. If high-quality project or regional grid-emission studies are available, these should be used. As a fallback, it is possible to use national grid average factors, as long this will not lead to an underestimation of the project impact or an overestimation of the GHG reductions.

A2.12. In some cases, a project may have impacts on GHG emissions upstream or downstream in a supply chain, or in the market it serves. These would typically be considered Scope 3[122] and excluded from the EBRD's project boundary. However, if these impacts have significant mitigation benefits that underpin the rationale for the EBRD's investment in the project, the Bank may choose to extend the boundary of the assessment to include these benefits.

A2.13. Different aspects of projects can have impacts on different areas. Consequently, the boundaries used to assess a project's transition impact or social impact, for example, may differ from those used for the GHG assessment.

The "with- and without-project" principle for determining baseline and project scenarios

A2.14. The EBRD's approach focuses primarily on estimating the change in GHG emissions to be brought about by investments. The Bank defines this as the difference between the emissions following the implementation of the project investment ("project emissions") and the emissions that would have

122 Using the definitions adopted by the World Business Council for Sustainable Development (WBCSD)/World Resources Institute (WRI) GHG Protocol, direct emissions are called "Scope 1", emissions from grid electricity used are "Scope 2" and other upstream and downstream emissions are "Scope 3". See WBCSD and WRI (1998).

occurred in its absence. This "without-project" scenario is referred to as the "baseline" or "reference" scenario.

A2.15. While the project emissions are relatively predictable (and amenable to routine monitoring during the project's lifetime), the emissions that would have occurred in the absence of the investment – the baseline or reference scenario – will remain hypothetical, so should be based on conservative assumptions.

Dynamic baseline

A2.16. Depending on the extent of information available and the extent to which future developments can be predicted, a time-dependent (or dynamic) baseline or reference scenario may be constructed. An example of an instance in which sufficient information might be available to develop a robust dynamic baseline is a power generation project that is part of a national power generation capacity modernisation plan, backed up by adequate technical assessments. Dynamic baseline approaches may be relatively complex and resource intensive to develop, but are necessary, particularly when they are to underpin carbon-trading transactions.

A2.17. For EBRD investments seeking to benefit from carbon mechanisms (for instance, those qualifying under the UNFCCC's Joint Implementation or Clean Development Mechanism), project and baseline emission assessments are based on methodologies approved by the UNFCCC or other internationally recognised bodies for this purpose.

Fixed baseline

A2.18. Where the development of a dynamic baseline is not justified, a fixed (not time-dependent) baseline may be adopted. The simplest approach, and the one preferred for most EBRD projects, is the use of pre-investment emissions within the project boundary as the baseline. In the case of greenfield projects, this is taken as zero, unless there are existing facilities included within the project boundary.

A2.19. Alternatives to using pre-investment emissions as the fixed baseline are benchmark technologies or benchmark levels of operational performance. It is important to note that the forecast of a project's GHG impact critically depends on the choice of baseline. Consequently, clarity of definition and consistency in the choice of baseline type are fundamental for the sake of comparability.

Project scenario

A2.20. "With-project" emissions are taken as those expected to occur in a representative (usually the first) year following full implementation of the project.

Capacity expansion and increased output

A2.21. Whenever the production output of a project is forecast to change as a result of the investment, the GHG emissions or savings associated with that change must be accounted for. In such cases, if efficiency improvements have been introduced, the resulting efficiency savings are only applicable to the pre-investment output level and must not be applied to the expansion increment unless it is certain that the same increase in output would have occurred in the absence of the project – in other words, unless the rise in output is entirely independent of project implementation.

Scope of emissions assessed

A2.22. Included in the assessment of project emissions are:

a. direct operational GHGs, as recognised by the IPCC, [123] occurring within the project boundary

b. the estimated GHG emissions associated with the generation of grid electricity used by the project[124]

c. where a project is designed specifically to generate downstream system and end-user benefits – for example, one involved in the manufacture of carbon-saving or energy-saving materials or technologies – these benefits are reported as a separate line item, as they fall outside the scope of emissions routinely assessed.

A2.23. Construction-phase emissions are normally not included in the assessment, as they are typically not considered significant compared with operational emissions. Construction-related emissions will be included in the assessment if they are likely to be significant (greater than 5 per cent) relative to the expected emission increases or savings associated with the project's operations.

Leakage

A2.24. Leakage is the phenomenon through which efforts to reduce emissions in one place simply shift emissions to another location or sector where they remain uncontrolled or uncounted. This happens, for example, when additional public transport capacity frees up capacity on roads, which is then filled by previously suppressed demand. It is important to recognise and take into account any significant leakage that may arise in a project.

Guidance on calculation methods and sources of data

A2.25. The accuracy required in calculating the GHGs arising from the processes involved in baseline and project operations will depend on the significance and size of the project. The selected methods should be fit for purpose, recognising the information and staffing resources available. Comprehensive recognised methodologies, such as those described in the GHG Protocol, the UNFCCC Clean Development Mechanism methodology, the Verified Carbon Standard, the Gold Standard, the EU Emissions Trading Scheme, ISO 14064 (Parts 1 and 2) and other international standards, can be used where feasible. Where the scope of the project or the scale of its emissions do not justify in-depth assessments of this type, conservative simplifications of these approaches will be adequate. Calculation methods must, nevertheless, be transparent.

A2.26. GHG data may be obtained from a number of sources depending on the project's size and sector and the nature of the EBRD's investment. Project-specific sources of data can include environmental impact assessments, environmental audits, energy audits, feasibility studies and investment plans.

123 See, for example, the IPCC's Sixth Assessment Report (IPCC, 2023). Emissions of non-CO_2 GHGs are expressed as CO_2 equivalent (CO_2e) based on their 100-year global warming potential, as provided by IPCC (2023).

124 Using the definitions adopted by the GHG Protocol, direct emissions are termed "Scope 1" and emissions from grid electricity used are "Scope 2". See WBCSD and WRI (1998).

Data can be compared against industry databases or benchmarks published by appropriate authorities and regulators.[125]

Greenhouse gas metrics

A2.27. Absolute annual project GHG emissions (gross GHG emissions) and the change in emissions brought about by a project (net GHG emissions) are generally calculated and reported in aggregate, although, in some cases, where a project involves only part of a larger complex facility, the concept of gross emissions is not readily quantifiable or necessarily relevant. In the latter case, only the net emissions of the proposed project are calculated.

A2.28. GHG emissions are calculated for the whole project, not pro rata for the Bank's financial involvement. EBRD investments invariably improve efficiency of production, even where increased emissions arising from a rise in production offset the savings made, leading to higher overall emissions. To demonstrate efficiency benefits, GHG emissions per unit of product output may be calculated for the project and baseline cases, in addition to the gross and net GHG emissions.

A2.29. The EBRD will publish the aggregated GHG assessment results for each year in its annual sustainability reporting. This will typically include details of the number of projects assessed, with GHG data presented for greenfield and green finance projects.

Annual reporting by projects

A2.30. In line with the EBRD's ESP, projects with annual emissions of 20 kt CO_2e per year are required to report such emissions annually to the Bank. The scope of this report will typically be limited to the boundaries of the EBRD-financed project and will align with the scope of the GHG assessment carried out during project appraisal. Annual reporting of GHG emissions should form part of the project's normal environmental and social reporting to the EBRD.

125 The values of the grid emission factors for the economies where the EBRD invests are derived from the Dataset of Harmonised Grid Factors (Version 2.0). The dataset is calculated using the methodology for GHG Accounting for Grid Connected Renewable Energy Projects developed by the IFI Technical Working Group (TWG) on GHG Accounting (IFI TWG, 2019). The TWG has agreed to use a common set of emissions factors for the GHG accounting of electricity production from renewable energy projects.

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