

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations

Direct Investment Lending Operations

Version 1.0 June 2023



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These principles were prepared by a group of multilateral development banks (MDBs), composed of the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Development Bank (IsDB), the New Development Bank (NDB) and the World Bank Group (WBG).

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Preface

The Paris Agreement and the Sustainable Development Goals (SDGs), both adopted in 2015, reflect a shared vision for sustainable development in the context of climate change, which requires scaling-up efforts to shift to a low-carbon and climate-resilient pathway while pursuing core development goals.

The Paris Agreement's stated aim is to "strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty," by keeping global warming "well below" 2°C above pre-industrial levels and pursuing efforts to stay below 1.5°C; fostering adaptation, resilience and low-emissions development without threatening food production; and making finance flows consistent with a pathway toward low-emissions, climate-resilient development.¹

In 2017 and 2018 at the One Planet Summits, Multilateral Development Banks (MDBs) committed to align their financial flows with the objectives of the Paris Agreement. To ensure a consistent approach to the implementation of the Paris Alignment commitment, at the 2019 UN Secretary-General's Climate Summit, the MDBs reconfirmed their commitment to helping clients deliver on the goals of the Paris Agreement in a joint statement.²

To this end, the MDBs developed an approach for aligning activities with the Paris goals, with six building blocks: alignment with mitigation goals (BB1), adaptation and climate-resilient operations (BB2), accelerated contribution to the transition through climate finance (BB3), engagement and policy development support (BB4), reporting (BB5), and alignment of internal activities (BB6): published at COP24.³

These notes set out joint MDB methodological principles for assessment of Paris Agreement alignment, providing a common technical approach for a range of financial instruments and financing types MDBs may use, addressing both BB1 and BB2 within each. Joint MDB methodological principles have been prepared for: (i) Direct investment lending operations, (ii) Policy-based lending operations, (iii) Intermediated financing, and (iv) General corporate purpose finance. Universally aligned and universally non-aligned lists of activities were also prepared and included in a separate section.⁴

These joint MDB methodological principles will be used by the MDBs to inform and facilitate the Paris Alignment assessments of their new financing operations. They have been developed through piloting work that has been going on over the past two years and which will continue. Building on these joint MDB principles, MDBs may develop their own methodological guidance and toolkits⁵ to be applied according to their internal processes and procedures to determine whether an operation is "aligned" or "not aligned" with the mitigation and adaptation goals of the Paris Agreement. MDBs will continue to work together to enable consistency and harmonization in the way the principles are applied across MDBs and update them as needed.

¹ UNFCCC. 2015. "Paris Agreement." FCCC/CP/2015/10/Add.1. Paris: United Nations Framework Convention on Climate Change. http://unfccc.int/paris_agreement/items/9485.php. Art. 2.

² MDBs. 2019. "High Level MDB Statement." Issued at the UN Secretary-General's Climate Action Summit, September 22, 2019. New York: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDBG), Islamic Development Bank (IsDB), New Development Bank (NDB), and World Bank Group (WBG). <https://www.iadb.org/document.cfm?id=EZSHARE-1729984378-16>.

³ [Joint Declaration MDBs Alignment Approach to Paris Agreement COP24 Final.docx \(worldbank.org\)](#).

⁴ The Universally Aligned List of activities includes those activities that contribute to climate action consistent with the mitigation goals of the Paris Agreement under all circumstances, and those that have no material impact on climate change, as they do not harm countries' transition to long-term low-greenhouse gas (GHG) emissions development pathways and do not lead to lock-in of carbon-intensive patterns. The Universally Non-Aligned List of activities includes those that are considered universally (regardless of context) inconsistent with countries' low-GHG emissions development pathways or incompatible with the mitigation goals of the Paris Agreement.

⁵ Due to differing mandates, policies and strategies in MDBs there could be observable differences in the operationalisation of these principles, in which case the PA assessments will be carried out using the MDB's respective methodological guidance and toolkits. Some MDBs have already developed Paris alignment approaches building on the joint work of the MDBs over recent years and will in those cases take account of the latest joint MDB approaches during future updates.

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of Direct Investment Lending Operations

This note provides methodological principles for assessing the alignment of operations with the mitigation goals (BB1) and adaptation and climate resilience goals (BB2) of the Paris Agreement. MDBs published a working draft of the note for Direct Investment Lending Operations in November 2021. This note will inform MDBs and facilitate consistency among them as they develop their own methods.

1. Overview and Main Principles

1.1 Assessment Outcomes: Operations Considered ‘Aligned’ or ‘Not Aligned’

1. An operation needs to be aligned with both mitigation (BB1) and adaptation and resilience (BB2) parts of the framework to be considered “Paris-aligned.”
2. **BB1** is the MDB approach for characterizing operations as “aligned” or as “not aligned” with the overall mitigation goals of the Paris Agreement. It focuses on whether the operation in question is consistent with a low-greenhouse gas (GHG) development pathway for that country and does not undermine a transition to a decarbonized economy, in that country and globally.
3. Many types of operations can be considered aligned with the Paris Agreement’s mitigation goals, including (i) operations that directly reduce GHG emissions; (ii) operations that generate GHG emissions, but are in line with the country-specific decarbonization pathways; and (iii) operations that do not have a material (positive or negative) impact on climate change.
4. In assessing the Paris alignment of a financed activity, the focus under BB1 is on the consistency of the type of activity in question with a low-GHG development pathway in that country, rather than the activity’s specific physical impact in terms of projected CO₂e emissions. Factors to consider may include, as needed, the types and carbon intensity of technologies and infrastructure, the energy sources used, the carbon contents of materials, and behavioral choices that need to be made locally to meet decarbonization goals. Considerations may also be based on the inclusion of a financed activity within a valid long-term strategy, consistency with associated public policies, or, on the contrary, whether a financed activity reflects development patterns or public policies that would prevent long-term decarbonization.
5. The MDBs are expected to carry out these assessments in light of the information and tools at their disposal in a given time frame. This will remain an expert judgment by the MDB, based on available information, as definitive references as to what constitutes low-GHG and climate resilient development pathways in a country are often not available yet, and they are likely to be revised in the future, reflecting the evolving body of scientific and economic information available to the MDBs and their clients. MDBs will be transparent about the fact that the outcome of the assessment is based on the best available information at the time it is made. Despite these limitations, many countries are working to identify their low-GHG, resilient development pathways, and the MDBs plan to continue to support them in preparing their Long-Term Strategies (LTSS) and updating their Nationally Determined Contributions (NDCs), including through the MDBs’ work under BB4 on engagement and policy development support.
6. **BB2** is the MDB approach for characterizing operations as “aligned” or as “not aligned” with the overall adaptation goals of the Paris Agreement. Under the MDBs’ BB2 approach, operations are expected to be characterized as “aligned” or “not aligned” depending on whether they manage likely material physical climate change risks, are deemed to be consistent or inconsistent with the country’s adaptation and climate resilience strategies and plans, and, where possible, contribute to climate-resilient development pathways. The MDBs are expected to carry out these assessments with the information and tools at their disposal.

1.2 Overarching Principles: Alignment with Mitigation Goals

7. Assessments under BB1 rely on countries' NDCs, low-GHG development pathways and strategies. Other studies and analyses regarding pathways considered to be in line with low-GHG development could also inform the assessment.
8. Using this framework, the MDBs will apply expert judgement to characterize whether they consider a specific operation to be "aligned" or "not aligned". In doing so, the MDBs' assessments do not constitute an endorsement of similar types of operations as "aligned" or "not aligned," nor do they make any judgment on a country' level of ambition, strategies, or priorities identified in its NDC or LTS.
9. Operations with multiple components will be assessed considering the overall objective of the operation and the alignment of each component. For the operation to be considered aligned with the mitigation goals of the Paris Agreement, all components must be aligned. The assessment is expected to be transparent regarding its extent, namely what components, technologies, and outputs were included or disregarded. Other considerations, such as geographical or time boundaries, will also be made explicit.

1.3 Overarching Principles: Alignment with Adaptation and Resilience Goals

10. This assessment framework adopts a context-specific and process-based approach, in line with established good practices on climate change adaptation and resilience-building. This approach recognizes the heterogeneity of potential climate-related impacts and sets a requirement that assessments must be contextualized.

2. Explanation of the BB1 Framework (Mitigation)

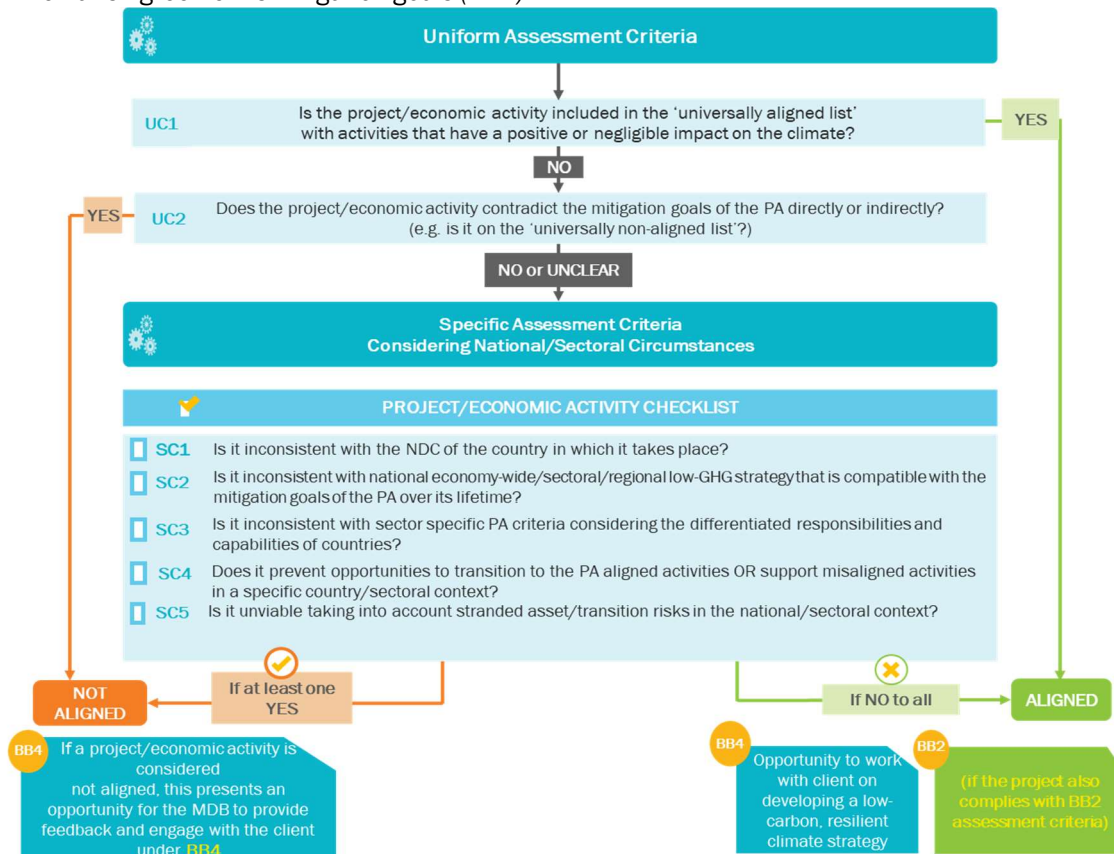
2.1 A Two-Pronged Approach

11. The activity characterization framework is a two-pronged assessment approach. As illustrated in Figure 1, it includes (1) an initial screening using uniform assessment criteria that identify operations or activity types that are considered to be universally aligned or not aligned, and (2) for operations or activities that cannot be characterized through the initial screening, the application of specific assessment criteria that consider national circumstances and other operation-specific contexts.

2.1.1 Uniform Assessment Criteria

12. The uniform assessment criteria are presented as lists of activities that the MDBs currently consider to be universally aligned or not aligned with the mitigation goals of the Paris Agreement, across countries and under all circumstances.
13. An operation that supports activities included on the "universally aligned" list would generally be considered aligned with the mitigation goals of the Paris Agreement, unless one or several of its components require the use of specific assessment criteria.
14. The lists of activities considered universally aligned or universally not aligned will be periodically updated by the MDBs, moving farther away from higher-emitting activities over time to meet the goals of the Paris Agreement. Updates will also reflect the latest evolution of technologies, policies, practices, and consumer behaviour. Guidance on criteria that could be used for revising this list will be discussed among the MDBs. The lists can also be revised by MDBs based on the insights and experience they gain in testing and applying the framework.

Figure 1. Decision-making approach for determining the alignment of direct investment lending operations with the Paris Agreement's mitigation goals (BB1)



i. Activities Considered Universally Aligned (Criterion UC1):

15. The list of activities that are considered universally aligned is provided in a separate note. In short, it covers:

- Activities that contribute to climate action consistent with the pathways toward the mitigation goals of the Paris Agreement under all circumstances, and
- Activities that have no material impact on climate change, as they do not harm countries' transition to long-term low-GHG development pathways and do not lead to lock-in of carbon-intensive patterns.

16. Operations with activity project types included on this list will have to go through the specific criteria assessment if any of the operation's components fall under any of the following:

- Operations whose economic feasibility depends on external fossil fuel exploitation, processing, or transport activities.
- Operations whose economic feasibility depends on fossil fuel subsidies.
- Operations that rely significantly on the direct utilization of fossil fuels.

ii. Activities Considered Universally not aligned (Criterion UC2):

17. The list of activities that are considered universally not aligned is provided in a separate note. It covers:

- Highly emissive activities (e.g., coal- or peat-fired power plants) that are considered universally (regardless of context) inconsistent with countries' low-GHG development pathways or incompatible with the mitigation goals of the Paris Agreement; and
- Activities directly supporting coal or peat extraction that are considered as universally inconsistent with these pathways.

2.1.2 Overview of Specific Assessment Criteria

18. Operations that cannot be characterized as aligned or not aligned on the basis of the uniform assessment criteria will need to be further assessed against a set of specific assessment criteria. These criteria evaluate the operation in light of the specific country circumstances and national and sectoral strategies that are likely to define that country's transition pathway(s) to low-GHG development. In many instances, especially at the early stages of implementation of this framework, information may not be available, or only be limited. However, these limitations are not expected to prevent an assessment from being carried out—it will simply be based on the information that can reasonably be obtained at that time.
19. This part of the assessment includes five specific criteria, SC1–SC5. As shown in Figure 1, if the answer is yes to any one of the five criteria, it is expected to lead to an operation or activity being characterized as not aligned.

i. How to Apply the Specific Assessment Criteria

20. The specific criteria are presented in parallel to indicate that there is no hierarchy among them. The proposed approach is designed to complement any missing information through the application of other criteria. For instance, where a “national strategy compatible with the goals of the Paris Alignment” does not yet exist, Criterion SC2 is not expected to lead to a classification as not aligned. Instead, the activity would be deemed as aligned or not aligned on the basis of the other criteria, as long as there is not a high risk of inconsistency with the type of strategies highlighted in SC2. A “No” response to questions SC1 to SC5 can either mean that the answer to the question is “No,” or that no data were available to answer the question. It is expected that SC4 can always be answered.
21. MDBs are expected to characterize an operation as considered aligned or not aligned based on the five specific criteria. Depending on the available information, MDBs might not be able to apply some of the criteria and would focus more on the other criteria, as long as they can justify their choice to do so.

ii. Specific Assessment Criteria

22. The sections below provide explanations of each specific criterion.

SC1: Is the operation / economic activity inconsistent with NDC of country in which it takes place?

23. This specific criterion involves checking whether the operation is “inconsistent with” the country's NDC. It will only lead to a “yes” answer (and therefore to an assessment of “not aligned”) if the NDC rules out the operation.
24. To check for inconsistency, the MDB verifies whether the NDC covers the sector or activity in question. If so, the MDB checks whether the operation is in line with the pathways laid out for that particular sector or activity. If the activity or sector is not included in the relevant strategy, then in most cases it can be concluded that the activity is not inconsistent with the strategy, and the MDB can continue applying the remaining specific criteria to determine alignment. However, there may be cases where the MDB can infer from the information available in the strategy that the activity is likely inconsistent with the strategy. As noted above, the expert judgment made by MDBs of operations should not be interpreted as a judgment or endorsement of the country's NDC or other relevant documents used in the assessment.

SC2: Is the operation/economic activity, over its lifetime, inconsistent with country's LTS or other similar long-term national economy-wide, sectoral, or regional low-GHG strategies compatible with the mitigation goals of the Paris Agreement?

25. SC2 assesses the operation's consistency with the country's long-term strategies and other official national, sectoral, or subnational strategies or policies (or drafts undergoing public consultations, as applicable).
26. LTSs and other relevant national, local, or sectoral low-GHG development strategies are expected to achieve long-term decarbonization, in line with the mitigation goals of the Paris Agreement. Other relevant national, local, or sectoral low-GHG emission strategies, as well as the MDB's own or other publicly available analysis, should be used to inform the assessment. The assessment follows the same approach as SC1 but applied to the LTS and other relevant low-GHG strategies.

SC3: Is the operation/economic activity inconsistent with global sector-specific decarbonization pathways in line with the Paris Agreement mitigation goals, considering countries' common but differentiated responsibilities and respective capabilities?

27. SC3 checks the operation's consistency with widely accepted data and findings in the global literature on sector-specific decarbonization pathways in line with the Paris Agreement's mitigation goals. SC3 applies these global studies to the country context. This can be particularly useful:
- When the lack of an LTS or similar national strategies makes an assessment under SC2 not feasible;
 - For operations in high-emitting sectors for which global Paris-compatible pathways are available; and
 - For operations that cover multiple countries or that are closely linked to international trade.
28. Sector-specific decarbonization pathways may include sector roadmaps developed by international organizations, academia, or industry associations.

SC4: Does the operation/economic activity prevent opportunities to transition to Paris-aligned activities, OR primarily support or directly depend on non-aligned activities in a specific country/sectoral context?

29. SC4 compares the operation to lower-carbon alternatives and considers the risks of (i) creating lock-in or (ii) preventing future deployment of Paris-aligned activities. SC4 also considers the broader impact the operation could have on the likelihood of achieving the low-GHG transition ("is the operation preventing opportunities to transition?").
30. SC4 may be informed by relevant low-GHG development pathways (same or other than those considered under SC2) and by studies carried out under BB4 or other country strategy support provided by the MDBs, as applicable.

SC5: Is the operation/economic activity economically unviable, when taking into account the risks of stranded assets and transition risks in the national/sectoral context?

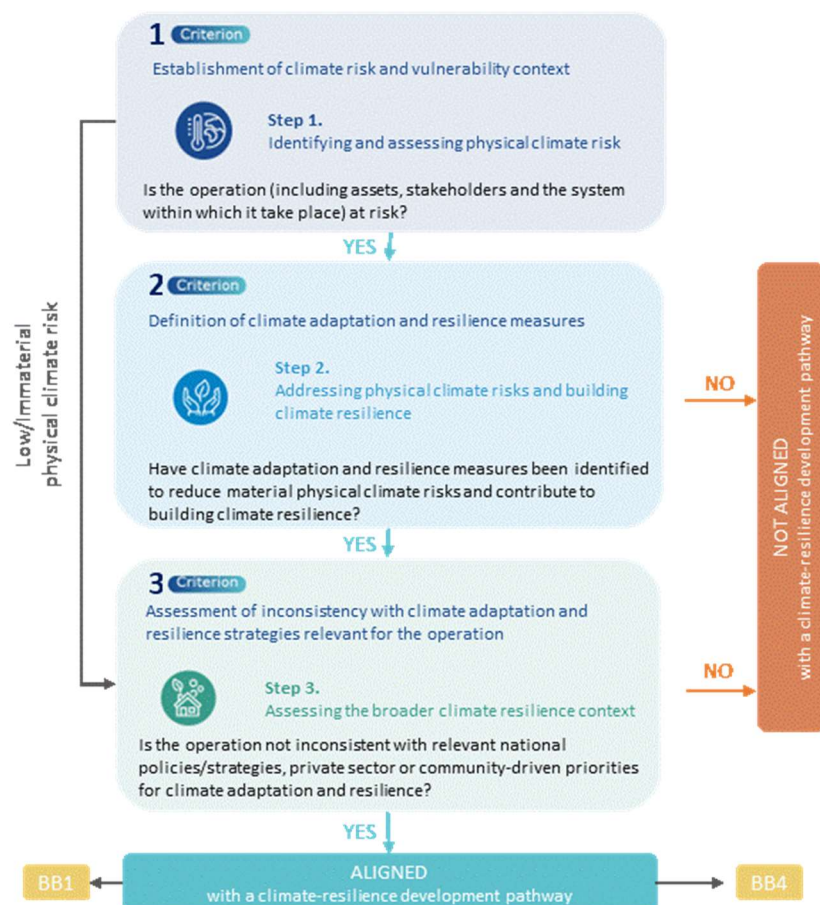
31. SC5 incorporates climate change considerations into the quantitative economic or financial analysis of the operation. This, in turn, involves monetizing, to the extent possible, the costs and benefits related to risks associated with climate change impacts and relevant climate policies. Each MDB is expected to apply the SC5 based on its internal methods and approaches.
32. An operation will be considered not aligned if it fails to meet the individual MDB's criteria for economic or financial viability once such considerations are incorporated in the analysis or in an equivalent qualitative assessment, if available. For example, the economic or financial analysis may account for the risks of an asset's lifetime being unexpectedly shortened, in particular due to climate policies (stranded assets risk). Shadow carbon prices can be a possible simplified way to incorporate climate change considerations into the economic analysis.

3. Explanation of the BB2 Framework (Adaptation and Climate Resilience)

3.1 Decision-Making Approach and Criteria

33. The BB2 assessment framework is built around three decision steps: (i) Identifying and assessing physical climate risk: Is the operation at risk? (ii) Addressing physical climate risk and building climate resilience: Have adaptation and resilience measures been identified to reduce material physical climate risks and enhance climate resilience? and (iii) Assessing the broader context for climate resilience: Is the operation not inconsistent with relevant policies/strategies, private sector or community-driven priorities for climate adaptation and resilience?
34. The decision-making approach in Figure 2 illustrates the process for assessing the alignment of an operation with the adaptation and resilience goals of the Paris Agreement, following these three steps. The criteria and guiding questions for each decision-making approach are described below.

Figure 2. MDB Decision-making approach for determining the alignment of direct investment lending operations with the Paris Agreement's climate change adaptation and resilience goals.



Criterion 1: Establishment of climate risk and vulnerability context

Purpose: Identify and assess physical climate risk—is the operation (including assets, stakeholders, and systems as relevant) at risk?

35. The objective of Step 1 is to determine whether an MDB operation is vulnerable to climate change. At a minimum, in order to successfully move to the next step, the climate risks to which the operation may be exposed to need to be identified and assessed, following each MDB's own internal policies.

36. Criterion 1 lays out a systematic approach for identifying and assessing the physical climate risks that could affect the operation over a relevant time horizon. Depending on the project boundaries, this could refer to impacts on its assets, the services it aims to provide, associated human and natural systems (e.g., ecosystem services), or its targeted beneficiaries, and it could be over short, medium, or long-term timeframes. In identifying and assessing physical climate risks, the MDBs will consider the context within which the operation will take place; the operation's exposure, sensitivity, and overall vulnerability to climate hazards; and the need for a climate risk assessment as appropriate.
37. If the operation is deemed not to be at risk (that is, the risk is considered low or immaterial), Step 2 can be skipped, and Step 3 will be completed next. If the operation is deemed to be at risk, the assessment moves on to Step 2.

Criterion 2: Definition of Climate Resilience Measures

Purpose: Address physical climate risks and enhance climate resilience—have climate adaptation and resilience measures been identified to manage the assessed physical climate risks?

38. The objective of Step 2 is to ensure that climate resilience measures have been included in the operation to address or manage any material physical climate risks identified in Step 1. In order to successfully move into the next step, an operation is expected to have identified and included measures to reduce the identified physical climate risks.
39. Notably, though Step 2 aims to ensure that adaptation measures minimize risks, considering synergies, trade-offs, and opportunities to enhance overall climate resilience, it does not set a bar for adequacy, minimum response, or thresholds for residual risks. It is expected that each institution will undertake reasonable measures to address identified risks, recognizing that climate adaptation and resilience measures and their impacts will be highly contextualized in practice.
40. This step considers:
- Measures to address identified climate risk and build climate resilience.
 - The potential for maladaptation (if relevant); and
 - The documentation of the selected climate resilience response.

Criterion 3: Assessment of Inconsistency with Climate Adaptation and Resilience Strategies Relevant for the Operation

Purpose: Assess the broader climate resilience context—is the operation not inconsistent with relevant policies/strategies and with private sector or community-driven priorities for climate resilience?

41. The objective of Step 3 is to ensure that operations are not inconsistent with country's climate commitments/policies/strategies/plans for climate adaptation and resilience and any other climate strategies relevant for the operation. In order to successfully complete the assessment under Step 3, an operation will be expected not to be inconsistent with priorities set forth in national or sectorial policies/strategies/plans for climate resilience. This step does not make a judgment on the adequacy or appropriateness of the policies/strategies/plans for climate resilience, or of private sector or community-driven priorities within the country.
42. This step entails:
- Identifying policies/strategies/plans for climate adaptation and resilience; and
 - Assessing that the operation is not inconsistent with these policies/strategies/plans or priorities.
43. If the activity or sector supported by the operation is not captured directly or indirectly in the relevant policies/strategies/plans, the operation is not considered inconsistent.

Annex to Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment for Direct Investment Lending Operations

BB1: Illustration of How to Apply the Specific Assessment Criteria

As the Paris Alignment characterization of the operation has to consider its consistency in the context of a low-greenhouse gas (GHG) pathway, where relevant, the operation should be assessed in the context of the broader activity or system-level framework in which the operation is designed and will operate. The assessment should focus on the overall impact of a project, as well as the policy and regulatory landscape.

Going through the multi-criteria approach can help identify key gaps and areas of engagement with counterparts to develop or improve long-term low-GHG development and other relevant strategies. This is particularly useful when the operation takes place in a country or in several countries that have yet to develop low-GHG and climate-resilient strategies.

The sections below provide additional details for the application of each specific criterion. For an overview of each criterion, see the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment for Direct Investment Lending Operations.

SC1: Is operation / economic activity inconsistent with NDC of country in which it takes place?

The more aligned a Nationally-Determined Contribution (NDC) is with the long-term goals of the Paris Agreement (for instance, when the NDC is informed by a pathway to decarbonization by mid-century), and the more sectors it covers, the more robust the assessment under SC1 is expected to be.

Examples

If the NDC of a country says, a specific fossil fuel-powered technology should be phased out by 2035, an operation in 2025 that would support such technology with an expected lifetime of 10 or more years could be deemed to be inconsistent with the NDC, and thus not aligned under SC1.

If the NDC makes no mention of the fossil fuel-powered technology, then an operation that supports such technology is not inconsistent with the country's NDC and can go on to be evaluated under the remaining criteria.

If the NDC makes no mention of the fossil fuel-powered technology but sets up an ambitious renewable energy target that would make such technology unnecessary unless renewable energy deployment is curtailed, the assessment under SC1 would be expected to be considered together with the assessment under SC4. This could possibly lead to it being deemed "inconsistent" with the NDC and not aligned with the Paris mitigation goals.

References

UNFCCC NDC Registry: <https://www4.unfccc.int/sites/ndcstaging/>

Climate Action Tracker: <https://climateactiontracker.org>

SC2: Is the operation/economic activity, over its lifetime, inconsistent with country's LTS or other similar long-term national economy-wide, sectoral, or regional low-GHG strategies compatible with the mitigation goals of the Paris Agreement?

SC2 follows the same approach as with SC1 but applied to the Long-Term Strategy (LTS) and other relevant low-GHG strategies.

The more ambitious and realistic an LTS is⁶, the more robust the assessment under SC2 will be. The consistency of the operation with that LTS considerably reinforces the likelihood of characterization of the operation as “Paris-aligned,” as it is then not only consistent with a plausible pathway, but with a formal country-owned strategy. LTSs can lay out a path for countries to decarbonize in a timely manner to keep global warming well below 2°C (while pursuing efforts to limit it to 1.5°C), build climate resilience, and facilitate an orderly transition for all sectors of the economy and society. With more countries developing their LTSs and updating their NDCs accordingly, the information gap in applying the SC2 is expected to be reduced.

Examples

If the LTS says that the power sector will be carbon-neutral by year X, and the proposed fossil fuel power installation (without carbon capture and storage) is not part of the country’s least-cost decarbonization pathway with emissions constraints aligned with the LTS’ carbon-neutral target, then this operation could be deemed to be inconsistent with the LTS and be not aligned.

References

[UNFCCC LTS Database: https://unfccc.int/process/the-paris-agreement/long-term-strategies](https://unfccc.int/process/the-paris-agreement/long-term-strategies)

National/Sector Development Plans

National Climate Action Plans

SC3: Is the operation/economic activity inconsistent with global sector-specific decarbonization pathways in line with the Paris Agreement mitigation goals, considering countries’ common but differentiated responsibilities and respective capabilities?

Considering countries’ “common but differentiated responsibilities and respective capabilities,” a foundational principle within the UNFCCC, means taking into account that countries are at different stages of development and have different resources and capacities that may affect their ability to decarbonize their economies in line with global pathways. As a result, an operation that would be deemed inconsistent in one country context might be deemed consistent in another context.

Examples

An operation will finance the procurement of diesel-fueled buses. Prospective studies (such as those published by [IEA](#)) suggest that in some countries, it is feasible to electrify public transport in the near term, as a step toward decarbonization. However, the pace at which this transformation can occur depends on the country context. In countries that are more advanced in their capabilities or opportunities for electrification of transport, the transition can be faster than in countries with more limited capacity or opportunities to transition to electrified fleet for several more years.

References

[IPCC Special Report: Global Warming of 1.5C](#)

[CD Links: Linking Climate and Development Policies – Leveraging International Networks and Knowledge Sharing](#)

[IEA Sustainable Development Scenario \(SDS\) and Net Zero Emissions by 2050 case \(NZE2050\)](#)

SC4: Does the operation/economic activity prevent opportunities to transition to Paris-aligned activities, OR primarily support or directly depend on non-aligned activities in a specific country/sectoral context?

SC4 may be informed by relevant low-GHG development pathways (same or other than those considered under SC2) and by studies carried out under BB4 or other country strategy support provided by the MDBs.

⁶ The [high-level LTS principles](#) proposed by MDBs can support the development, implementation, and monitoring of robust, inclusive, and ambitious LTSs.

Low-GHG development pathways considered under SC4 should be consistent with the objectives of the Paris Agreement, but also consider the circumstances of the country, best available technologies, and capabilities of the client (in other words, they must be plausible).

Even before countries reach the stage of having an official LTS, interim analyses produced as part of capacity-building efforts or other country-level diagnostics, including those supported by MDBs, may represent useful inputs for assessment under SC4. The more such interim analyses comply with the principles for a robust LTS, the more useful they will be for enabling a robust assessment.

BB2: Illustration of How to Apply the Three Criteria

Criterion 1: Establishment of climate risk and vulnerability context

Purpose: Identify and assess physical climate risk—is the operation (including assets, stakeholders, and systems as relevant) at risk?

The assessment under Criterion 1 has two main parts, each with several steps that may be considered when assessing Criterion 1:

1. Assessing the level of exposure and sensitivity of the operation within its boundaries

Establishing operation's boundaries: A key first step is to ensure that a clear and appropriate assessment boundary has been determined based on each institution's operating policies. The boundary should primarily comprise of the physical and non-physical activities (assets, systems, services, etc.) being financed through the operation, their geographic coverage and lifetime. In case the success of the operation significantly depends on external factors, the boundaries may be expanded to consider relevant physical, economic, or social realms of reasonable impacts. Physical realms may include aspects such as conservation areas in the proximity of the operation, extent of urban expansion, or destination areas (in case of transportation projects). Economic realms could comprise the sources of raw materials or important links in the value chain. Social realms could include behavior change resulting from services being provided by the operation.

Defining the operation's level of exposure (within its boundaries and specified timeframe) to specific climate-related hazards: Current and future climate-related hazards relevant to the operation could be identified using existing national or regional records of historical climate hazards, and scenario-based projections of future climate. The operation's exposure to such hazards (defined by the assessment boundary) should be assessed under appropriate climate change scenarios over suitable time frames based on the nature and lifetime of activities being financed. For example, the exposure of a road upgrading project being undertaken in a flood-prone area needs to consider precipitation and flood scenarios over the lifetime of the road infrastructure (i.e., 25 years).

Scoping the operation's sensitivity to climate change: Once an operation's exposure is identified, its sensitivity to climate change can be determined using evidence in the existing literature, historical records, etc., of the impacts of climate change and climate variability on similar or actual operations (for instance, a specific type of infrastructure or service). For example, in the case of an operation aimed at improving the quality and management of child development services, existing records may suggest that climate hazards could disrupt home visits by educators; or in an operation aimed at capacity building, historic climate trends may show that training facilities in certain locations may not be accessible for participants during the timeframe foreseen for the trainings.

2. Overall vulnerability to climate hazards and the need for a system-level risk assessment

Determining overall vulnerability to climate hazards within the operation's boundaries: The impacts of relevant climate hazards on the operation depend on its level of exposure and sensitivity to such hazards. The operation's vulnerability to these hazards can be determined by considering its ability to cope with the identified impacts (i.e., adaptive capacity). An operation may require a more in-depth climate risk/vulnerability assessment to define climate resilience measures (e.g., third-party ad-hoc assessment, qualitative assessment, quantitative assessment, a detailed disaster risk assessment,

etc.). Qualitative and/or quantitative types of assessments could be used depending on the level of effort required for the type of climate risk identified (e.g., level of criticality).

Determining the need for a system-level risk assessment: Depending on the nature of the operation, indirect or unintended climate risks and impacts to the wider system in which it operates may be considered (based on each institution's operating policies). For example, an agricultural intensification project could worsen water scarcity for urban households in an area susceptible to drought.

Criterion 2: Definition of Climate Resilience Measures

Purpose: Address physical climate risks and enhance climate resilience—have climate adaptation and resilience measures been identified to manage the assessed physical climate risks?

The following steps may be considered for each aspect of the analysis under Criterion 2:

1. Measures to address climate risks and opportunities and enhance climate resilience

Incorporating measures to address climate risks: Measures incorporated into the operation to address the identified climate risks should be proportionate to the operation's vulnerability to such risks. These measures can focus on risk avoidance or on risk mitigation.

Identifying additional opportunities to enhance climate resilience: In some instances, an operation may support particular investments/activities aimed at increasing climate resilience. Climate resilience could be built into the entire project, rather than responding to the specific climate-related risks. An assessment of the opportunities for resilience-building presented by a changing climate and adoption of climate adaptation and resilience measures that provide wider benefits is encouraged. As such, in addition to addressing climate risks, operations could explore measures that build climate resilience, which could assist the country in moving further along a climate-resilient development pathway. For example, institutional strengthening activities being supported by an operation in a climate-sensitive realm could contribute to building adaptive capacity.

2. Potential for maladaptation

Considering the potential for maladaptation: Trade-offs between different adaptation options could be considered, along with the likelihood of the proposed climate adaptation and resilience measures contributing to maladaptation (based on each institution's operating policies).

3. Documentation of selected climate responses

Documenting the processes or measures established for climate adaptation and resilience: Measures related to the climate response- and related information should be systematically documented.

Criterion 3: Assessment of Inconsistency with Climate Adaptation and Resilience Strategies Relevant for the Operation

Purpose: Assess the broader climate resilience context—is the operation not inconsistent with relevant policies/strategies and with private sector or community-driven priorities for climate resilience?

The following steps may be considered in completing those tasks under Criterion 3:

1. Identifying policies/strategies as well as private sector or community-driven policies for climate resilience

Identifying policies/strategies and private sector or community-driven priorities relevant to the operation: The assessment can consider policies for climate adaptation and resilience that exist at the national, regional, or local level (laws, strategies, action plans such as National Action Plans, NDCs, regional/city/local plans). If applicable, private sector or community-driven priorities at the national, regional, or local level could also be considered.

If climate resilience-related policies and priorities do not exist: The operation could be considered not inconsistent if it would not hinder a climate-resilient development pathway for the country.

2. Establishing that the operation is not inconsistent with these policies/strategies/plans or priorities

The relevance and applicability of identified policies/strategies/plans at the national, local, city, regional, and territorial level, and/or private sector or community-driven priorities to the operation must be determined. The operation must assess that it is not inconsistent with those policies/strategies/plans or priorities considered relevant and applicable.

Glossary | Selected Terms and Definitions

Operation	Financial and related operational support to specific productive activities (projects) with defined development objectives, activities, and results, entirely or partially provided by an MDB to an investee and disbursed against specific eligible expenditures (i.e., capital investment or operational and maintenance expenses). Capital investment can be provided to initiate new economic activity (e.g., operation finance of a new power plant), support existing economic activity (e.g., working capital for a farm), or finance the components of existing economic activity (e.g., energy efficiency improvements at a manufacturing facility).
Carbon lock-in	Carbon lock-in occurs when, due to technical, economic, or institutional factors associated with a given investment, an emissions-intensive asset is expected to continue to operate even after there are feasible—and economically preferable—lower-carbon options that could replace it.
Climate change adaptation and climate resilience	These terms are sometimes used interchangeably, but although they overlap, they are distinct from each other and should be treated accordingly in the context of the BB2 decision tree: - Climate change adaptation is the process of human and natural systems adjusting to the actual or expected impacts or effects of climate change. It includes adapting to short-term weather fluctuations, inter-annual variability, and longer-term changes over decades, and it relates to adjustments in behaviours, practices, skill sets, natural processes, and knowledge that anticipate short-, medium-, and long-term changes. - Climate change resilience is the ability of a system to withstand climate-related shocks or stressors. It is the capacity of a system to cope with, or recover from, those effects, while retaining its essential original components. Climate resilience is an important and growing subset of building system-level resilience to multiple shocks.
Climate hazards	Climate hazards are physical occurrences with the potential to affect human, environmental, or economic systems. Climate hazards may be chronic or slow-onset (that is, progressive shifts in climate conditions, such as gradual reductions in annual rainfall), or acute or rapid-onset (that is, extreme weather events, such as floods, cyclones, or storms). They may result in the loss of life, physical injuries, loss of livelihoods, asset underperformance, environmental degradation, etc. The extent of those impacts depends on: <i>Exposure</i>—is the operation⁷ in a location and setting where (directly or indirectly) a slow- or rapid-onset climate hazard is expected to occur? <i>Sensitivity</i>—to what degree can the operation be affected (directly or indirectly) by changes in climate and variability? <i>Timeframe</i>—over what timescale could the operation, its target community, or the ecosystem potentially be exposed to a given climate hazard? <i>Climate vulnerability</i>—to what degree is an operation, its target community or ecosystem susceptible to, and unable to cope with the adverse effects of changes in climate and variability? [Vulnerability is a function of the hazards to which an operation is exposed to, its sensitivity and adaptive capacity]

⁷ This includes a target community or an eco-system.

	▪ <i>Adaptive capacity</i>—what capacities does the operation, or its sponsor/beneficiary have to cope with exposure to a given climate hazard?
Climate-resilient development pathway	In the context of the BB2 decision tree, a country's climate-resilient development pathway is defined as a trajectory in which climate change does not prevent progress toward sustainable development goals (economic growth, human development, environmental protection, etc.) and the gains from a "new climate normal" are maximized where possible. These trajectories are continually evolving and are built on two components: actions to mainstream the development of strategies and climate risk management procedures, and incremental or transformative climate adaptation and mitigation actions to reduce human-induced climate change and its impacts.
Physical climate risk	Physical climate risk is the potential for consequences where something of value is at stake and the outcome is uncertain. It is often measured as the probability that a hazardous event or trend may occur, multiplied by the impacts that would result. Building on this, the BB2 decision tree breaks down the definition of risk into three determinants, like the Network for Green Financial Services: <i>sensitivity</i> (to physical climate hazards), <i>exposure</i> (to physical climate hazards—in a geographical sense) and <i>timeframe</i> (time span of potential exposure to physical climate hazards). In this context, "risk" refers to the potential loss of value, and "value" may be defined in the broadest possible terms: financial capital, economic capital, human capital, social capital, environmental capital, etc.

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations

Intermediated financing

Version 1.0 June 2023



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Intermediated financing

Version 1.0 June 2023

These principles were prepared by a group of multilateral development banks (MDBs), composed of the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Development Bank (IsDB), the New Development Bank (NDB) and the World Bank Group (WBG).

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Preface

The Paris Agreement and the Sustainable Development Goals (SDGs), both adopted in 2015, reflect a shared vision for sustainable development in the context of climate change, which requires scaling-up efforts to shift to a low-carbon and climate-resilient pathway while pursuing core development goals.

The Paris Agreement's stated aim is to “strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty,” by keeping global warming “well below” 2°C above pre-industrial levels and pursuing efforts to stay below 1.5°C; fostering adaptation, resilience and low-emissions development without threatening food production; and making finance flows consistent with a pathway toward low-emissions, climate-resilient development.¹

In 2017 and 2018 at the One Planet Summits, Multilateral Development Banks (MDBs) committed to align their financial flows with the objectives of the Paris Agreement. To ensure a consistent approach to the implementation of the Paris Alignment commitment, at the 2019 UN Secretary-General's Climate Summit, the MDBs reconfirmed their commitment to helping clients deliver on the goals of the Paris Agreement in a joint statement.²

To this end, the MDBs developed an approach for aligning activities with the Paris goals, with six building blocks: alignment with mitigation goals (BB1), adaptation and climate-resilient operations (BB2), accelerated contribution to the transition through climate finance (BB3), engagement and policy development support (BB4), reporting (BB5), and alignment of internal activities (BB6): published at COP24.³

These notes set out joint MDB methodological principles for assessment of Paris Agreement alignment, providing a common technical approach for a range of financial instruments and financing types MDBs may use, addressing both BB1 and BB2 within each. Joint MDB methodological principles have been prepared for: (i) Direct investment lending operations, (ii) Policy-based lending operations, (iii) Intermediated financing, and (iv) General corporate purpose finance. Universally aligned and universally non-aligned lists of activities were also prepared and included in a separate section.⁴

These joint MDB methodological principles will be used by the MDBs to inform and facilitate the Paris Alignment assessments of their new financing operations. They have been developed through piloting work that has been going on over the past two years and which will continue. Building on these joint MDB principles, MDBs may develop their own methodological guidance and toolkits⁵ to be applied according to their internal processes and procedures to determine whether an operation is “aligned” or “not aligned” with the mitigation and adaptation goals of the Paris Agreement. MDBs will continue to work together to enable consistency and harmonization in the way the principles are applied across MDBs and update them as needed.

¹ UNFCCC. 2015. “Paris Agreement.” FCCC/CP/2015/10/Add.1. Paris: United Nations Framework Convention on Climate Change. http://unfccc.int/paris_agreement/items/9485.php. Art. 2.

² MDBs. 2019. “High Level MDB Statement.” Issued at the UN Secretary-General's Climate Action Summit, September 22, 2019. New York: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDBG), Islamic Development Bank (IsDB), New Development Bank (NDB), and World Bank Group (WBG). <https://www.iadb.org/document.cfm?id=EZSHARE-1729984378-16>.

³ [Joint Declaration MDBs Alignment Approach to Paris Agreement COP24_Final.docx \(worldbank.org\)](#).

⁴ The Universally Aligned List of activities includes those activities that contribute to climate action consistent with the mitigation goals of the Paris Agreement under all circumstances, and those that have no material impact on climate change, as they do not harm countries' transition to long-term low-greenhouse gas (GHG) emissions development pathways and do not lead to lock-in of carbon-intensive patterns. The Universally Non-Aligned List of activities includes those that are considered universally (regardless of context) inconsistent with countries' low-GHG emissions development pathways or incompatible with the mitigation goals of the Paris Agreement.

⁵ Due to differing mandates, policies and strategies in MDBs there could be observable differences in the operationalisation of these principles, in which case the PA assessments will be carried out using the MDB's respective methodological guidance and toolkits. Some MDBs have already developed Paris alignment approaches building on the joint work of the MDBs over recent years and will in those cases take account of the latest joint MDB approaches during future updates.

Joint MDB Methodological Principles for Assessment of Paris Alignment of Intermediated Financing

MDBs presented a high-level overview of its methodological principles for assessment of Paris Alignment for intermediated finance in November 2021. This note builds on the core principles of 'Direct Investment Lending Operations' to develop an approach for determining alignment of MDB financial flows via financial intermediaries. It provides two options to assess the PA of intermediated finance: (1) Transaction-based alignment, (2) Counterparty-based alignment.

1. Core Considerations

1. This joint MDB framework is designed to assess the Paris alignment of intermediated finance, including financing delivered through banks, non-banking financial institutions, leasing companies, funds, and other financial intermediaries. The framework does not apply directly to supply chain financing of real sector companies, unless done through a financial institution.
2. Assessment should be done by each MDB alone or jointly with the counterparty, and applied to new operations of the counterparty, to confirm that MDB financial flows do not undermine the climate change mitigation and resilience objectives of the Paris Agreement. It should result in activities being reported as aligned or not aligned.
3. Assessment should consider that most counterparties are broadly exposed to the economic activities and circumstances of the countries they operate in, and at the time of the MDB investment decision, there may be uncertainty or limited information on the attributes of the assets or activities to be financed from the MDB financial flows. Assessment should consider that counterparties are at varying levels of readiness and capabilities and may be subject to regulations that may affect their approach to Paris alignment.
4. Building Block 1 (BB1) is the component of the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Lending Operations that assesses the alignment of investments with the mitigation objectives of the Paris Agreement. Building Block 2 (BB2) is the component that assesses alignment with the climate adaptation and resilience objectives of the Paris Agreement. The BB1 and BB2 criteria developed for direct investment lending operations have been adapted for intermediated finance, in line with the core considerations above.
5. Paris alignment of MDB financial flows via financial intermediaries may rely on counterparties' commitments for strengthening decision-making and risk management processes to be applied to assets or activities to be financed from MDB financial flows and/or assets or activities financed by the financial intermediary more broadly. Depending on the ambition and context of the counterparty, these processes may go beyond the MDB financial flows and benefit other activities of the counterparty.
6. Paris alignment of MDB financial flows via financial intermediaries may also rely on applicable regulations or supervisory expectations. To the extent that Paris alignment is not addressed by commitments or regulations, MDBs may embed Paris alignment criteria, activities, or policies in investment agreements with financial intermediaries, or in other contractual agreements (e.g., side letters). The Joint MDB approach does not prescribe requirements for any legal contracts between MDB counterparties and their sub-borrowers.
7. Each MDB is responsible to implement this framework in its respective institutional and political context, during the design, as applicable, assessment and approval of new financing operations, in conjunction with the overall implementation approaches developed by individual MDBs. Each MDB may offer technical assistance to support the Paris alignment of the counterparty so it can transition toward a low-carbon and climate-resilient pathway.

8. This joint MDB framework will be updated periodically based on learnings from MDBs.

2. Overview and Main Principles of the Joint Technical Framework

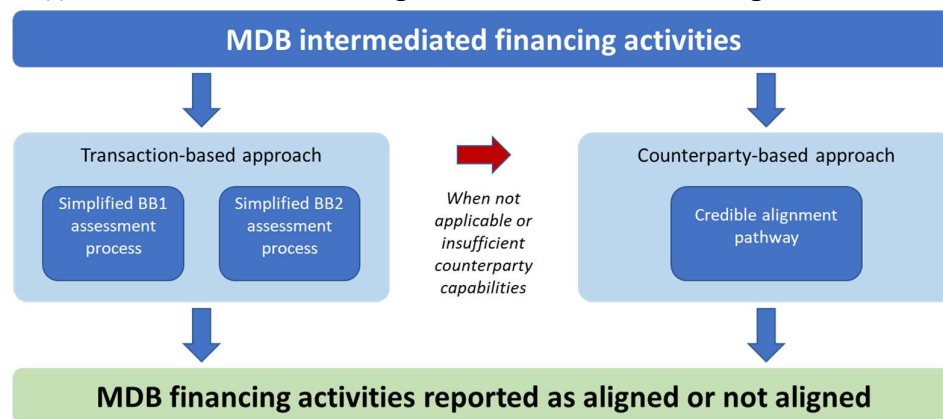
9. The framework includes two options to assess the Paris alignment of intermediated financing (see figure 1).

10. **Transaction-based alignment**, based on an analysis of use of proceeds (BB1), plus analysis of risk and materiality (BB2). BB1 alignment of the eligible use of proceeds can be assessed through the simplified BB1 assessment process described below and BB2 alignment, based on risk and materiality, can be assessed through the simplified BB2 assessment process described below.

11. **Counterparty-based alignment**, based on the analysis of a counterparty's credible Paris alignment pathway. This can be done through the counterparty-based approach described below.

12. If the MDB investment involves financing specific, defined activities or asset types, either option to demonstrate Paris alignment may be applicable and sufficient. Otherwise, only the counterparty-based option applies. MDBs may decide to combine the two options, based on the context of the counterparty and other factors. As the capabilities of the counterparty improve, the counterparty-based option may, over time, supersede the transaction-based option.

Figure 1. Two approaches to assess the Paris alignment of intermediated financing



3. Transaction-based approach

BB1 Principles

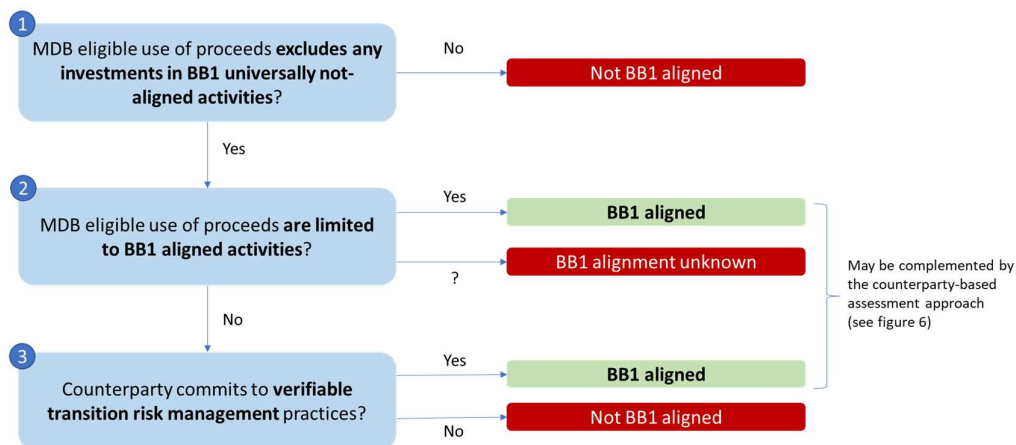
13. The eligible use of proceeds, as defined by the MDB, should exclude any investments/activities that is considered universally not-aligned with the Paris Agreement goals.

14. The eligible use of proceeds, as defined by the MDB, should be limited to aligned activities (see Step 2). Otherwise, if the eligible use of proceeds, as defined by the MDB, includes activities that may represent a potential material risk of undermining the mitigation objectives of the Paris Agreement (e.g. high risk of carbon lock-in) then the counterparty shall commit to gradually include an adapted BB1 assessment (adapted from the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Lending Operations, noting core considerations for the assessment of Paris alignment) for relevant project types within its transition risk management systems and processes (e.g., Environmental and Social Management System (ESMS), risk management) during the tenor of the MDB investment.

15. If it is not possible to implement this simplified BB1 assessment, then the counterparty-based approach should be used or a combination of the two approaches may be needed.
16. Aligned means high-risk activities are excluded or are screened, and the risks addressed/ reasonably managed at the time of the investment commitment or before the end of the investment tenor, OR the counterparty commits to implement or improve their transition-related risk management.
17. Not-aligned means high-risk activities are not excluded or not screened, or the risks are not addressed/ reasonably managed AND the counterparty is not willing to commit to implement or improve their transition-related risk management before the end of the investment tenor.

Simplified BB1 Assessment Steps

Figure 2. Decision making approach for determining alignment with the Paris Agreement's mitigation goals (BB1)



i. Step 1 - Exclusion of BB1 Universally Not-aligned Activities

18. The first step of the transaction-based assessment should ensure that the MDB eligible use of proceeds excludes investments in activities on the universally not-aligned list as defined in the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Lending Operations. This Joint MDB approach uses the list of not-aligned activities but may update the list periodically as needed.

ii. Step 2 – Check for BB1 Aligned Activities

19. BB1-aligned activities still need to demonstrate that they do not have a material impact on climate change, do not lead to the lock-in of carbon-intensive patterns that would be inconsistent with the mitigation objectives of the Paris Agreement, and are not inconsistent with countries' transition to low-greenhouse gas (GHG) development pathways and countries' climate policies. Such activities may include, but are not limited to:

- Financial instruments where the transaction includes a commitment to deliver climate change mitigation benefits (e.g., financing instruments that target eligible green assets).
- Financing of activities and assets included in the BB1 universally aligned list developed for direct investment lending operations (e.g., health, education, and financial sector service providers, such as financial technologies, mortgages, and leasing).
- Financing of activities and assets that individually represent small volumes and diversified across industries, including SME finance that applies low/no materiality thresholds to ensure that exposure to value chains of BB1 not-aligned activities is marginal or zero; capital market transactions that aggregate retail; and refinancing Non-Performing Loans portfolios that focus on retail or SMEs—provided that the sub-borrowers have marginal or no exposure to BB1 not-aligned activities within the financed portfolio or pipeline.

- Low/no materiality thresholds based on short financing tenor (e.g., less than one year of exposure) or type of financial product (guarantees, trade and supply chain finance working capital, financing of commodities); where short-term financing may support gaseous and liquid fossil fuel supply the counterparty should commit to gradually reduce the exposure of the financed portfolio over time to marginal or near zero.

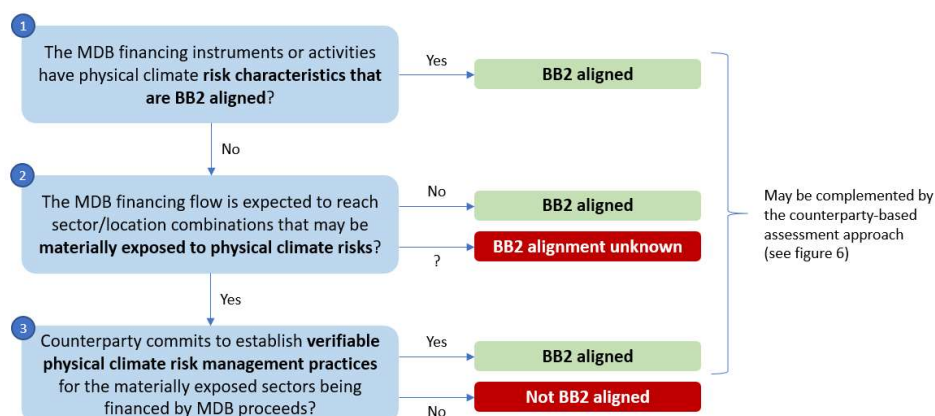
iii. Step 3 – Risk Management Measures

20. If the MDB use of eligible proceeds includes investments that are not on the list of BB1 aligned activities and may lead to potential carbon lock-in and transition risks, then the MDB should demonstrate that at the time of investment either (i) the risks within the eligible use of proceeds have been addressed or reasonably managed, or (ii) the counterparty commits to verifiable management practices to ensure that carbon lock-in and transition risks are managed before the end of the investment tenor, as applicable.

BB2 Principles

21. MDBs will engage with counterparties to help build readiness and capacity for physical climate risk management where appropriate.
22. Where applicable regulations and/or supervisory guidelines provide a relevant context and/or guidance for managing physical climate risk, MDBs' engagement on physical climate risk management will reflect them and, where appropriate, build on them. MDBs may engage with regulators/supervisors to support the emergence of an enabling environment and level the playing field on physical climate risk management and the adoption of associated good practices.
23. Aligned means high-risk projects are excluded or are screened and the risks addressed/ reasonably managed at the time of the investment commitment, OR the counterparty has committed to transitioning to verifiable physical climate risk management practices before the end of the investment tenor, as applicable.

Figure 3. Decision making approach for determining alignment with the Paris Agreement's climate change adaptation and resilience goals.



24. Not aligned means high-risk projects are not excluded or not screened, or the risks are not addressed/reasonably managed AND the counterparty is not willing to commit to transitioning to better climate-related risk management.
25. BB2 assessment for financial intermediary investments takes an approach in which MDBs support counterparties to implement steps reflecting a risk-based approach and the principle of materiality, as illustrated in the figure 3.

i. Step 1 – Risk Characteristics of the MDB Financing Flows

26. If a significant proportion⁶ of the MDB financing flow through the counterparty is not expected to reach subprojects or sub-borrowers exposed to material physical climate risks, then this leads to automatic BB2 alignment.
27. **BB2-aligned financing instruments or activities** are those that do not have a long exposure window to physical climate risk or are with entities that have in place processes and procedures that correspond to adequate physical climate risk management or target assets in which any physical climate risks are likely to be widely dispersed across a broad range of sectors, industries, or locations. Such activities include, but are not limited to:
- Financing activities that do not have a large exposure window to climate risk (e.g., working capital, mobile assets with limited exposure to physical climate risk) and/or do not contravene stated country national adaptation policies.
 - Financing instruments or activities with entities that have in place processes and procedures that correspond to adequate physical climate risk management, or that are already implementing a Paris alignment pathway (e.g., because of engagement on another transaction) or are otherwise do not contravene the adaptation objectives of the Paris Agreement, such as entities that are not sensitive or exposed to material climate risks (e.g., financial technologies) as defined by the respective MDBs.
 - Financial instruments and targeted financed assets in which any physical climate risks are likely to be widely dispersed across a broad range of sectors, industries, or locations (e.g., diversified SME financing, trade and supply chain finance, mortgages not concentrated in specific geographic areas) and are therefore unlikely to present a material risk of undermining the adaptation objectives of the Paris Agreement.
28. If a significant proportion of financed activities or instruments used do not have the characteristics above, then MDBs should implement Step 2.

ii. Step 2 – Risk Expectations of the MDB Financing Flows

29. The MDB will engage with the counterparty to collect additional information on the potential risk exposure and further assess whether a significant proportion of the intermediated financing flow is expected to reach subprojects or sub-borrowers in sector/location combinations that may be materially exposed to physical climate risks. If the answer to the assessment is no, then the operation is aligned under BB2. If the answer is yes or cannot be reasonably established, then the MDB will support the counterparty to be prepared to gradually implement Step 3, focusing on the sectors financed by MDB proceeds.

iii. Step 3 – Risk Management of the MDB Financing Flows

30. If a significant proportion of the intermediated financing flow is expected to reach subprojects in sector/location combinations exposed to material physical climate risks, the counterparty should commit to establishing verifiable physical climate risk management practices, specifically focusing on any materially exposed sector(s) being financed.
31. If it is not possible to implement this simplified BB2 assessment process, the counterparty-based approach should be used. As counterparties' capabilities improve, the counterparty-based approach may supersede the targeted use of proceeds approach. MDBs or other entities could support any necessary improvement in physical climate risk management.

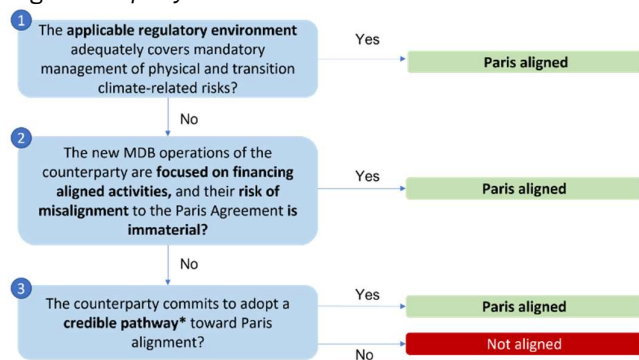
4. Counterparty-based Approach

32. The counterparty-based approach is particularly relevant for general purpose financing, which could include a variety of types of financial intermediation (e.g., equity investments, guarantees, capital optimization, liquidity financing, as well as investment in equity funds). It may need to be applied together with the transaction-based approach.

⁶ Each MDB may use its risk management approach to determine the threshold for a significant portion.

33. In particular, for equity funds, the MDB should support the funds to incorporate BB1 and BB2 risk considerations in their risk management systems (e.g., ESMS). If the risk cannot be mitigated, the MDB may opt out of investing in high-risk projects under a fund.
34. Based on the context of each counterparty, each MDB will determine the information to be used for assessment of Paris alignment. This may include, but not be limited to, existing portfolios, pipeline, or ex-ante projections.

Figure 4. Decision making approach for determining alignment with the Paris Agreement's goals (BB1 and BB2) using counterparty-based assessment.



* The scope and pace shall depend on the counterparty's capabilities and the applicable regulations. Counterparties are expected to implement a relevant climate strategy and incorporate it in internal management systems. During the tenor of the MDB investment, a gradual improvement in BB1 (and where applicable BB2) alignment is expected. Counterparties are expected to disclose annual progress on the above to the MDB.

Requirements

35. If the applicable regulatory environment adequately⁷ covers mandatory management of physical and transition climate-related risks (i.e., BB1 and BB2), then the MDB investment flow through the financial intermediary will be automatically aligned.
36. Otherwise, if the MDB determines that the counterparty's new operations focus on financing BB1 aligned activities (see Step 2 of transaction-based approach), and the risk of misalignment with the Paris Agreement is immaterial, all MDB financing for the counterparty will be deemed as aligned.
37. Otherwise, Paris alignment can be achieved if the counterparty commits to adopt a credible pathway toward Paris alignment.
38. The scope and the pace of the selected pathway and disclosures will depend on the counterparty's capabilities and the applicable regulations, and each MDB will define the specific conditions and features of the acceptable counterparty pathways. Specifically, the counterparties are expected to implement a relevant climate strategy and incorporate it in internal management systems. During the tenor of the MDB investment, this is expected to progressively move toward BB1 alignment of the counterparty's new operations (e.g., by gradually replacing not-aligned activities with aligned activities).
39. Financial intermediaries that are likelier to be exposed to physical climate risks, should commit to a gradual improvement of BB2 alignment for the material physical climate risks of the counterparty's new operations. MDBs may provide training, access to tools and platforms for physical climate risk screening, etc. Furthermore, the counterparties are expected to commit to disclosing to the MDB, unless applicable regulations do not allow for it, annual progress on the above.

⁷ The MDBs aim to work together and with others to identify how applicable regulatory environments would adequately cover management of physical and transition climate-related risks (i.e., BB1 and BB2).

40. Timelines for progress may vary depending on the counterparty's readiness and capacity. Pathways may include a combination of risk and opportunity commitments, including commitments driven by the regulatory environment in which the financial intermediary operates, specific and measurable low-carbon targets, and/or other voluntary commitments.

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations

General Corporate Purpose Financing

Version 1.0 June 2023



Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations

General Corporate Purpose Financing

Version 1.0 June 2023

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Preface

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To this end, the MDBs developed an approach for aligning activities with the Paris goals, with six building blocks: alignment with mitigation goals (BB1), adaptation and climate-resilient operations (BB2), accelerated contribution to the transition through climate finance (BB3), engagement and policy development support (BB4), reporting (BB5), and alignment of internal activities (BB6): published at COP24.³

These notes set out joint MDB methodological principles for assessment of Paris Agreement alignment, providing a common technical approach for a range of financial instruments and financing types MDBs may use, addressing both BB1 and BB2 within each. Joint MDB methodological principles have been prepared for: (i) Direct investment lending operations, (ii) Policy-based lending operations, (iii) Intermediated financing, and (iv) General corporate purpose finance. Universally aligned and universally non-aligned lists of activities were also prepared and included in a separate section.⁴

These joint MDB methodological principles will be used by the MDBs to inform and facilitate the Paris Alignment assessments of their new financing operations. They have been developed through piloting work that has been going on over the past two years and which will continue. Building on these joint MDB principles, MDBs may develop their own methodological guidance and toolkits⁵ to be applied according to their internal processes and procedures to determine whether an operation is “aligned” or “not aligned” with the mitigation and adaptation goals of the Paris Agreement. MDBs will continue to work together to enable consistency and harmonization in the way the principles are applied across MDBs and update them as needed.

¹ UNFCCC. 2015. “Paris Agreement.” FCCC/CP/2015/10/Add.1. Paris: United Nations Framework Convention on Climate Change. http://unfccc.int/paris_agreement/items/9485.php. Art. 2.

² MDBs. 2019. “High Level MDB Statement.” Issued at the UN Secretary-General's Climate Action Summit, September 22, 2019. New York: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDBG), Islamic Development Bank (IsDB), New Development Bank (NDB), and World Bank Group (WBG). <https://www.iadb.org/document.cfm?id=EZSHARE-1729984378-16>.

³ [Joint Declaration MDBs Alignment Approach to Paris Agreement COP24_Final.docx \(worldbank.org\)](#).

⁴ The Universally Aligned List of activities includes those activities that contribute to climate action consistent with the mitigation goals of the Paris Agreement under all circumstances, and those that have no material impact on climate change, as they do not harm countries' transition to long-term low-greenhouse gas (GHG) emissions development pathways and do not lead to lock-in of carbon-intensive patterns. The Universally Non-Aligned List of activities includes those that are considered universally (regardless of context) inconsistent with countries' low-GHG emissions development pathways or incompatible with the mitigation goals of the Paris Agreement.

⁵ Due to differing mandates, policies and strategies in MDBs there could be observable differences in the operationalisation of these principles, in which case the PA assessments will be carried out using the MDB's respective methodological guidance and toolkits. Some MDBs have already developed Paris alignment approaches building on the joint work of the MDBs over recent years and will in those cases take account of the latest joint MDB approaches during future updates.

Joint MDB Methodological Principles for Assessment of Paris Alignment of General Corporate Purpose Finance

This note provides methodological principles for assessing the alignment of operations with mitigation goals (BB1) and adaptation and climate resilient operations (BB2) of the Paris Agreement, by taking into account the core principles of 'Direct Investment Lending Operations' and adopts the concept into private real sector investment operations without targeted use of proceeds.

1. Core considerations

1. The Joint MDB Methodological Principles for the Assessment of Paris Alignment of General Corporate Purpose (GCP) Finance applies to direct, private real sector investment operations without targeted use of proceeds using a counterparty approach. This methodological framework may be applied to the following, amongst others:
 - a. Working capital,
 - b. Revolving credit facilities,
 - c. Trade finance through a corporate,
 - d. Supply chain finance with a corporate anchor company,
 - e. General purpose corporate loans and bonds for corporates,
 - f. Equity investments for corporates,
 - g. General guarantees which do not specify coverage to specific activities or assets.

2. Overview and Main Principles of the Joint Technical Framework

2. Where the **use of proceeds or activities to be financed cannot be identified**, Paris Alignment assessment will use a **counterparty-based approach**. Counterparty will be understood as either the legal entity⁶ that is signing the finance agreement with the MDB, or, alternatively, another party having control over the project activity, as applicable for the MDB.
3. The MDB will conduct two analyses for PA on mitigation and adaptation and resilience, respectively; an MDB operation will be considered Paris aligned if it is **aligned according to both**.

Overarching Principles: Alignment with Mitigation Goals

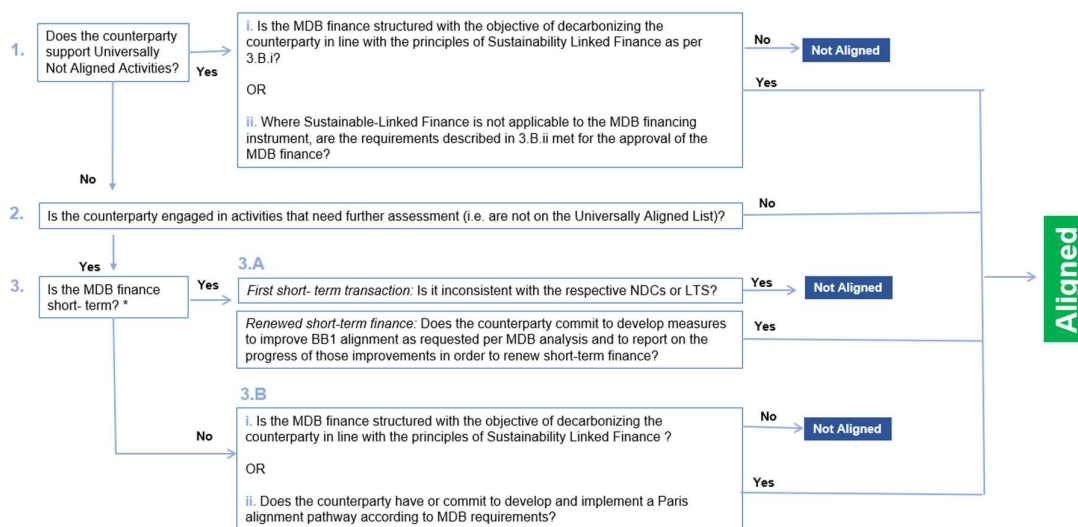
4. Given the nature of financial transactions of the real sector that are covered by this framework and understanding that money is fungible, the counterparty-based approach is informed by a two-fold focus on:
 - a. Channeling MDB financing to counterparties committed to a transition towards Paris Alignment and,
 - b. Preventing the enabling of non-aligned activities and focusing on activities that are considered material for the alignment with the mitigation goals of the Paris Agreement.

Explanation of the Counterparty-based approach for BB1

5. The MDB will follow the steps outlined below to determine if the MDB operation is aligned with the mitigation goals of Paris Agreement:

⁶ Each MDB will define the legal entity or entities that will be considered as a counterparty for this assessment depending on the complexity of the financial structure and targeting the legal entity or entities that have the control of implementing the PA pathway.

Figure 1. Decision making approach of GCPs for alignment with the Paris Agreement's mitigation goals (BB1)



* If the operation considers both long-term and short-term finance, the MDB shall consider the requirements for long-term finance for alignment under BB1.

1. Does the counterparty support Universally Not Aligned ⁷ activities?

6. If so, the MDB finance may be considered aligned to BB1 only if (a) the MDB finance is structured with the objective of decarbonizing the counterparty in line with the principles of Sustainability-Linked Finance as described in 3.B.i. or (b) where Sustainable-Linked Finance is not applicable to the MDB financing instrument, the requirements described in 3.B.ii are met for the MDB operation to be aligned with the mitigation goals of the Paris Agreement.

2. Is the counterparty engaged in sectors or activities that need further assessment (i.e., are not on the Universally Aligned list)?

7. If not, the MDB finance is considered aligned to BB1. If a counterparty is engaged in one or more activities that are not on the universally aligned list, or in activities with potentially material transition risks, go to (3). To facilitate the assessment, the MDB assessment can focus on the illustrative list of sector/activities that would require further assessment in Annex 1.

3. Is the MDB finance short-term⁸?

8. In those cases where an operation has both long-term and short-term finance, the MDB will apply the requirements for long-term finance and skip directly to considerations in 3.B.

3.A. A first **short-term** transaction can be considered aligned, as long as it is not inconsistent with the respective countries' climate commitments, including Nationally-Determined Contribution (NDC), National Adaptation Plan (NAP), and Long-Term Strategy (LTS) (if available) and other relevant strategies⁹. The MDB will require an improvement of alignment on mitigation to renew short-term financing and consider the MDB finance Paris aligned on mitigation. The MDB will conduct an analysis of the counterparty's context, scope of activities, and will request improvements according to the sub-sector and differentiated responsibilities and capabilities. If the counterparty commits to develop measures to improve alignment on mitigation as requested per MDB analysis to renew short term finance, then the MDB finance can be considered aligned on mitigation.

⁷ This refers to the list of activities referenced in the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Lending Operations. The list may be updated periodically as needed. A company that engages in an activity considered universally not aligned may still receive direct finance for the transition towards a Paris aligned business model.

⁸ As defined by each MDB's accounting rules. If multiple MDBs provide finance to the same counterparty they would need to apply a common definition of short term.

⁹ As outlined in the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Lending Operations.

3.B. If financing is **long term**, in order to be considered Paris aligned to BB1 the transaction must either:

- i. Be structured with the objective of decarbonizing the counterparty in line with the principles of Sustainability-Linked Loans and Bonds on a timeline consistent with the goals of the Paris Agreement. Therefore, the counterparty must set ambitious targets attached to the transaction to substantially reduce the carbon intensity of their operations and phase down fossil fuels during the tenor of MDB finance AND contribute to reach net zero greenhouse gas (GHG) emissions by mid-century. It is recommended that the process be subject to independent external review and verification. The International Capital Market Association Sustainability-Linked Bonds and/or Loan Market Association Sustainability-Linked Loan Principles may be taken as a reference; **OR**
- ii. The counterparty must have or commit to develop and implement a Paris alignment pathway during the tenor of the MDB finance. Additionally, the counterparty must report to the MDB periodically on the progress of development and implementation of the pathway. The MDB will decide on a way to assess the counterparty and its context and establish requirements for the pathway's scope based on the materiality of the sectorial mitigation levers and implementation timeline considering the counterparty's sector decarbonization pathways, country Nationally-Determined Contributions (NDCs) and Long-Term Strategy (LTS), country context and capabilities, amongst others. The pathway at a minimum shall cover:
 - a. A decarbonization plan aligned with sectoral and country-wide decarbonization pathways that specifies measures to be undertaken within the tenor of the MDB finance, to be presented to the MDB according to the MDBs required timeline and including:
 - A mid-term, rolling, quantitative emission reduction target where accounting methodologies are available.
 - Descriptions and/or assessments of commercially available decarbonization solutions, to contribute to achieve maximum decarbonization up to net zero emissions towards mid-century.
 - Internal management procedures to implement the pathway.
 - Consider scope 3 GHG emissions within the decarbonization plan, where possible, and if scope 3 emissions are considered significant.
 - b. Address carbon lock-in and stranded asset risks if applicable.
 - c. Address the risk of expansion or promotion of expansion into areas of high carbon stocks or high biodiversity areas if applicable.

Overarching Principles: Alignment with Adaptation and Resilience Goals

9. BB2 is the MDB approach for characterizing operations as “aligned” or as “not aligned” with the overall adaptation goals of the Paris Agreement. Under the MDBs’ BB2 approach, operations are expected to be characterized as “aligned” or “not aligned” depending on whether the counterparty manages material physical climate change risks.
10. MDBs will adopt a supportive, ‘enabling’ approach towards physical climate risk management, engaging with counterparties to help build readiness and capacity for physical climate risk management where appropriate.
11. A key issue to be assessed by the MDB is whether the counterparty has processes in place to identify and consider the materiality of physical climate change risks, and whether this is translated into risk management procedures that inform strategic and operational decision making.

12. With the information and tools at their disposal, the MDBs are expected to assess the materiality of the counterparty's exposure to climate risks and the adequacy of the counterparty's climate risk management processes.

Explanation of the Counterparty-based approach for BB2

13. The MDB will follow the steps outlined below to determine if the MDB finance is aligned with the adaptation goals of the Paris Agreement:

Table 1. Steps to determine if the MDB finance aligned with the adaptation goals of the Paris Agreement

MDB Finance Characteristics	Assessment by MDB	Climate Risk Management Processes	Reporting on climate risk
Short term	None is required prior to approval	None is required at approval	Counterparty to report any material exposure to climate risk after approval and throughout the tenor of the MDB financing. If material exposure is identified, for the renewal of short- term finance the counterparty shall establish or commit to establish climate risk management processes.
Long Term Low or immaterial risk	MDB assesses material climate risk.	None is required at approval	Counterparty to report any material exposure to climate risk throughout the tenor of the loan. If material exposure is identified, the MDB shall require the counterparty to establish processes to manage climate risk.
Long term NOT low or immaterial risk, or Unknown (If MDB cannot determine materiality prior to approval)	MDB will assess if the counterparty has adequate processes in place to manage material risks.	When applicable counterparty shall develop and implement processes	Counterparty to report on progress in developing and implementing processes. Counterparty to report any material exposure to climate risk throughout the tenor of the loan.

1. Is the finance provided by the MDB to the counterparty short-term¹⁰?

14. If so, in order for the operation to be aligned with BB2, the counterparty shall commit to report ex-post the occurrence of any climate impact or material climate risk¹¹ throughout the tenor of the MDB finance. This would allow the MDB to identify if there are any material climate risks that need to be addressed for the renewal of the short-term finance. If during the tenor of the MDB finance material climate risks are identified, then the MDB shall request the counterparty to develop and implement a risk management process commensurate with the risk in order for the short-term renewal to be aligned with BB2.

2. Is the climate risk low or immaterial?

¹⁰ As defined by each MDB's accounting rules. If multiple MDBs provide finance to the same counterparty they would need to apply a common definition of short term.

¹¹ For example, the counterparty shall report if their supply chain or if their own production was affected by a severe drought.

15. To assess material exposure, where it is practical, the MDB may determine the climate risk exposure by applying its own tools. If there are no material risks identified and therefore climate risk management procedures are not deemed necessary at the moment of approval of the operation, the MDB will request the counterparty to periodically review its exposure and report to the MDB any material changes in exposure to physical climate risk during the tenor of the MDB finance, unless applicable regulations do not allow for it. If during the tenor of the MDB finance material climate risks are identified, then the MDB shall request the counterparty to develop and implement a risk management process commensurate with the risk.

3. Does the counterparty have adequate processes in place to manage any material climate risks?

- a. If prior to approval the climate risk exposure of the counterparty is not considered low or immaterial or if the climate risk cannot be determined by the MDB due to the complexity of analysis¹², then the MDB will assess if the counterparty has adequate processes in place to manage material climate risks.
- b. If the counterparty has processes in place the MDB will assess if these are adequate based on the MDB's own frameworks and policies, considering whether these processes allow to both identify material exposure and vulnerability based on their activities and operations as well as mitigate the risk where possible and necessary.
- c. If the climate risk management processes are adequate, the MDB will consider the counterparty to be BB2 aligned. The counterparty shall report to the MDB regular progress on the CRM and, to the best effort possible, notify the MDB of any material exposure changes during the tenor of the MDB finance, unless applicable regulations do not allow for it.
- d. If there are no adequate processes in place, and where it is practical, the MDB will determine the climate risk exposure and request the counterparty to: i) put climate risk management processes in place; and ii) regularly report to the MDB on progress made in developing and implementing processes, unless applicable regulations do not allow for it. The degree and scope of these requirements will be commensurate with the level of materiality and risk. The MDB will establish the criteria for the establishment and/or gradual improvement of processes that lead the counterparty towards BB2 alignment. Each MDB will determine a timeline for the developing and establishment of the climate risk processes.

¹² This may be the case for example of counterparties that have multiple assets in multiple locations or where there is lack of information regarding supply chain aspects.

Annex 1: Illustrative list of high-emitting sectors that require further assessment under Step 2 of the Counterparty-based approach for BB1

A counterparty that is engaged in any of the below activities or sectors will require a further assessment:

1. Fossil fuel-dependent industries and activities: Operations whose economic feasibility depends on external fossil fuel exploitation, processing, and transport activities; Operations whose economic feasibility depends on existing fossil fuel subsidies; Operations that rely significantly¹³ on the direct utilization of fossil fuels.
2. Fossil fuel-based industries: gas production, oil and gas distribution, power generation, heat supply.
3. Energy-intensive industries or high emission industrial processing: chemicals, hydrofluorocarbons (HFCs), iron and steel, pulp and paper, non-ferrous metals (e.g., aluminum, copper), non-metal minerals (e.g., cement, lime, glass)
4. Aviation: understood as aircraft manufacturing and operations, aircraft leasing, airline operations, airport operations, air-freight transport of goods and products.
5. Shipping¹⁴ and other forms of transport¹⁵ as core business.
6. Animal products: ruminant livestock supply chain and non-ruminant livestock with non-negligible GHG emissions, both including feed supply (related to 7).
7. Sectors or activities that may directly lead to expansion or promote expansion into areas of high carbon stocks or high biodiversity areas (e.g., soybean, palm oil, sugar, cacao, wood products, buildings, among others)¹⁶.

¹³ To be defined by the MDB in terms of the specific production conditions of the counterparty.

¹⁴ For example, shipping companies or companies that depend on shipping for their business model.

¹⁵ For example, car rental companies.

¹⁶ Excluding counterparties that have third party certification or evidence that they are not expanding or promoting expansion into areas of high carbon stocks or high biodiversity areas.

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations

Policy-based Lending Operations

Version 1.0 June 2023



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Policy-based Lending Operations

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These principles were prepared by a group of multilateral development banks (MDBs), composed of the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Development Bank (IsDB), the New Development Bank (NDB) and the World Bank Group (WBG).

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Preface

The Paris Agreement and the Sustainable Development Goals (SDGs), both adopted in 2015, reflect a shared vision for sustainable development in the context of climate change, which requires scaling-up efforts to shift to a low-carbon and climate-resilient pathway while pursuing core development goals.

The Paris Agreement's stated aim is to "strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty," by keeping global warming "well below" 2°C above pre-industrial levels and pursuing efforts to stay below 1.5°C; fostering adaptation, resilience and low-emissions development without threatening food production; and making finance flows consistent with a pathway toward low-emissions, climate-resilient development.¹

In 2017 and 2018 at the One Planet Summits, Multilateral Development Banks (MDBs) committed to align their financial flows with the objectives of the Paris Agreement. To ensure a consistent approach to the implementation of the Paris Alignment commitment, at the 2019 UN Secretary-General's Climate Summit, the MDBs reconfirmed their commitment to helping clients deliver on the goals of the Paris Agreement in a joint statement.²

To this end, the MDBs developed an approach for aligning activities with the Paris goals, with six building blocks: alignment with mitigation goals (BB1), adaptation and climate-resilient operations (BB2), accelerated contribution to the transition through climate finance (BB3), engagement and policy development support (BB4), reporting (BB5), and alignment of internal activities (BB6): published at COP24.³

These notes set out joint MDB methodological principles for assessment of Paris Agreement alignment, providing a common technical approach for a range of financial instruments and financing types MDBs may use, addressing both BB1 and BB2 within each. Joint MDB methodological principles have been prepared for: (i) Direct investment lending operations, (ii) Policy-based lending operations, (iii) Intermediated financing, and (iv) General corporate purpose finance. Universally aligned and universally non-aligned lists of activities were also prepared and included in a separate section.⁴

These joint MDB methodological principles will be used by the MDBs to inform and facilitate the Paris Alignment assessments of their new financing operations. They have been developed through piloting work that has been going on over the past two years and which will continue. Building on these joint MDB principles, MDBs may develop their own methodological guidance and toolkits⁵ to be applied according to their internal processes and procedures to determine whether an operation is "aligned" or "not aligned" with the mitigation and adaptation goals of the Paris Agreement. MDBs will continue to work together to enable consistency and harmonization in the way the principles are applied across MDBs and update them as needed.

¹ UNFCCC. 2015. "Paris Agreement." FCCC/CP/2015/10/Add.1. Paris: United Nations Framework Convention on Climate Change. http://unfccc.int/paris_agreement/items/9485.php. Art. 2.

² MDBs. 2019. "High Level MDB Statement." Issued at the UN Secretary-General's Climate Action Summit, September 22, 2019. New York: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDBG), Islamic Development Bank (IsDB), New Development Bank (NDB), and World Bank Group (WBG). <https://www.iadb.org/document.cfm?id=EZSHARE-1729984378-16>.

³ [Joint Declaration MDBs Alignment Approach to Paris Agreement COP24 Final.docx \(worldbank.org\)](#).

⁴ The Universally Aligned List of activities includes those activities that contribute to climate action consistent with the mitigation goals of the Paris Agreement under all circumstances, and those that have no material impact on climate change, as they do not harm countries' transition to long-term low-greenhouse gas (GHG) emissions development pathways and do not lead to lock-in of carbon-intensive patterns. The Universally Non-Aligned List of activities includes those that are considered universally (regardless of context) inconsistent with countries' low-GHG emissions development pathways or incompatible with the mitigation goals of the Paris Agreement.

⁵ Due to differing mandates, policies and strategies in MDBs there could be observable differences in the operationalisation of these principles, in which case the PA assessments will be carried out using the MDB's respective methodological guidance and toolkits. Some MDBs have already developed Paris alignment approaches building on the joint work of the MDBs over recent years and will in those cases take account of the latest joint MDB approaches during future updates.

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of Policy-based Lending Operations

This note provides methodological principles for assessing the alignment of operations with the mitigation (BB1) and adaptation and climate resilient (BB2) goals of the Paris Agreement. The note takes into account the core principles of Direct Investment Lending Operations⁶ and extends the concept to operations where financial flows support national and sub-national programs of policy reforms and institutional actions that promote growth, poverty reduction and sustainable development through Policy-based lending operations (PBLs).

1. Overview and Main Principles

1.1 Assessment Outcomes: Operations Considered ‘Aligned’ or ‘Not Aligned’

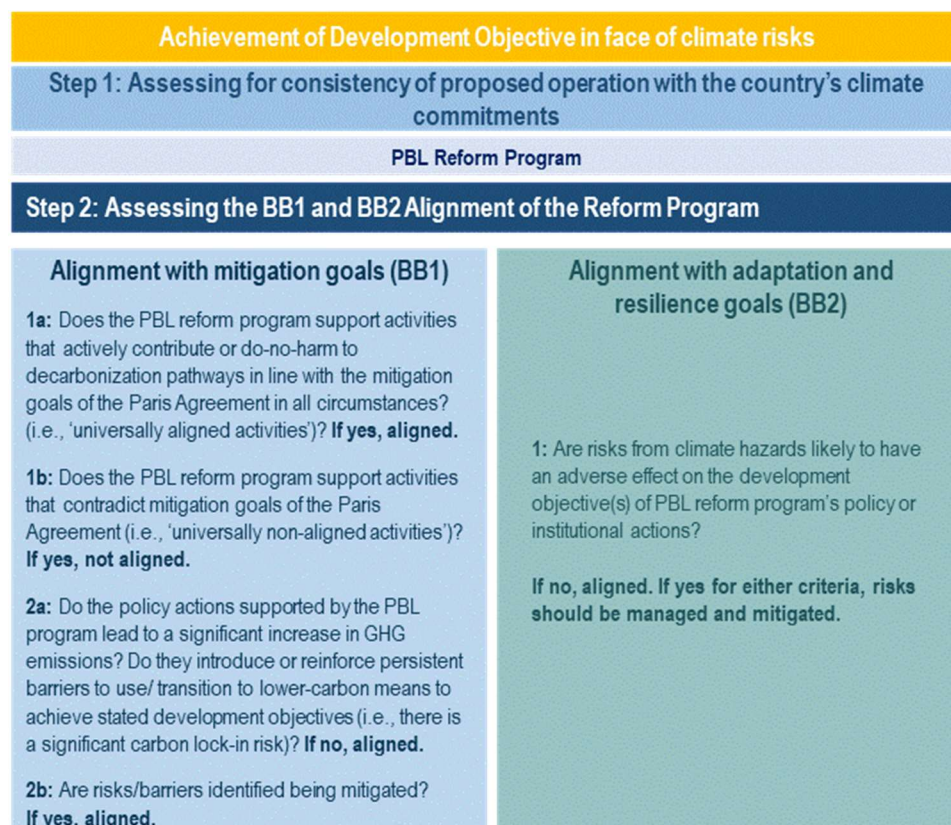
1. An operation needs to be aligned with both the mitigation and climate adaptation and resilience goals of the Paris Agreement to be considered “Paris-aligned.” There are separate sets of questions for assessing the alignment of PBL operations with mitigation and climate adaptation and resilience goals. The outcome of a PA assessment is “aligned” or “non-aligned”.
2. Section 2 describes the two-step PA methodological principles for assessing alignment of PBL operations with the goals of the Paris Agreement. Section 3 outlines the first step, which consists of assessing whether the reform program supported by the PBL operation is consistent with the country’s national commitments and priorities on climate, while Section 4 describes the approach for assessing the alignment of the policy or institutional actions supported by the PBL operation with the mitigation (BB1) goals and climate adaptation and resilience (BB2) goals of the Paris Agreement.
3. Section 4.1 describes the approach for assessing alignment with mitigation goals (BB1). An operation is considered aligned with the Paris Agreement’s mitigation goals when it either (i) actively contributes to decarbonization in all circumstances by reducing greenhouse gas (GHG) emissions or increasing sinks (e.g., renewable energy), (ii) has no impact on decarbonization as it has negligible GHG emissions (e.g., school curriculum development) or (iii) generates GHG emissions but is consistent with the country’s decarbonization pathways, which are compatible with the Paris Agreement goals, and it has a low risk of locking in emissions-intensive patterns. An operation is considered not aligned on climate mitigation when it supports activities that contradict the mitigation goals of the Paris Agreement, and/or leads to a significant risk of carbon lock-in when compared to lower-carbon alternatives considering national circumstances and capabilities.
4. Section 4.2 describes the approach for assessing alignment with the climate adaptation and resilience goals of the Paris Agreement (BB2). Operations are characterized as “aligned” with climate adaptation and resilience goals when the design reflects climate resilience/adaptation good practices responding to current or future physical climate change effects⁶.
5. MDBs are expected to carry out these assessments considering the information and tools at their disposal. The assessment outcomes will remain an expert and – to a certain extent – subjective and dynamic judgment, based on available information at a given point in time that may change, as strategies to implement a country’s low-carbon and climate resilient development pathways are often not available yet. Despite these limitations, many countries are working to identify their low-carbon, climate resilient development pathways, and MDBs plan to continue to support them in preparing their Long-Term Strategies (LTSs) and updating their Nationally-Determined Contributions (NDCs).

⁶ This definition recognizes that some physical climate risks cannot be fully mitigated and are beyond the scope of Paris Alignment.

2. Explanation of the MDB Principles for Assessment of PBLs

6. PBL operations support national and subnational programs of policy reforms and institutional actions that promote growth, poverty reduction and sustainable development. Financing is made available as non-earmarked general budget financing, upon satisfactory implementation of a policy and institutional reform program that consists of a set of policy or institutional actions to achieve certain results. PBL operations have broad potential impact in the country, given their scope is at the sector or country level and that budget support is unearmarked.

Figure 1. Assessing alignment of PBLs with Paris Agreement goals



7. The PBL PA assessment consists of (i) ensuring that the broader PBL engagement is not inconsistent with the country's commitments on climate change as articulated in its NDC, Long-Term Strategy (LTS), National Adaptation Plan (NAP) or equivalent documents, and (ii) assessing the alignment of the reform program supported by the PBL operation with mitigation (BB1), and climate adaptation and resilience (BB2) goals (Figure 1).

3. Step 1: Assessing Consistency of the PBL-supported Government reform program with the Country's Priorities on Climate Change

8. This first step consists of ensuring the PBL engagement supporting the government program is not inconsistent with the country's priorities on climate change and does not hinder the achievement of national climate goals and commitments for achieving the goals of the Paris Agreement.
9. While commencing a PBL engagement in a country, the Government and the MDB team should discuss the reform program to be supported by the PBL so as to ensure that it is not inconsistent with the country's NDC (the most recent NDC submitted to the UNFCCC) and its National Adaptation Plan (NAP) (if available) and with the country's long-term decarbonization strategy (LTS)

(if available), as well as MDB's own or other publicly available analysis. This dialogue should inform the structuring of the reform program/selection of policy or institutional actions.

10. If the above analysis concludes that there may be inconsistencies between the reform program supported by the PBL engagement and any of the country's NDC, LTS or NAP, the PBL will be considered 'Not Aligned' and as such, should not be supported by the MDB 'as is'. The government and the MDB would be expected to continue working on the design of the proposed PBL engagement.
11. If the policy and institutional reforms under the PBL program are not captured directly or indirectly in the relevant strategy, and therefore its consistency is inconclusive, the task team can proceed to the next step.

4. Step 2: Assessing the BB1 and BB2 Alignment of the Reform Program

12. This second step entails assessing the alignment of the reform program supported by the PBL operation with mitigation (BB1) and climate adaptation and resilience goals (BB2) of the Paris Agreement. For a PBL operation to be considered "Paris-aligned", the reform program should be aligned with both mitigation and climate adaptation and resilience goals.⁷

4.1 Principles for Assessing Alignment of the reform program with Mitigation Goals (BB1)

14. Principles for assessing the alignment of the reform program with mitigation goals are twofold:

I. STEP 1

Criterion 1a: Does the PBL reform program consist of policy actions that support activities that actively contribute or do-no-harm to decarbonization pathways in line with the mitigation goals of the Paris Agreement in all circumstances? (i.e., 'universally aligned activities')?

13. If the PBL reform program consists of policy actions that only support activities that are considered *universally aligned*, the reform program is considered *aligned with mitigation goals*. Universally aligned activities are defined by the universally aligned list and its eligibility conditions and comprises:
 - Activities that actively contribute to decarbonization pathways in line with mitigation goals of the Paris Agreement under all circumstances and in all countries (for example, renewable energy, electric and non-motorized urban mobility); and
 - Activities that do-no-harm to decarbonization pathways in line with the Paris Agreement mitigation goals under all circumstances and in all countries (for example: cash transfer schemes).
14. If the reform program consists of one or more policy actions for which the response is 'no', the assessment continues to criterion 1b.

Criterion 1b: Does the PBL reform program consist of policy actions that support activities that contradict the mitigation goals of the Paris Agreement (i.e., 'universally non-aligned activities')?

15. Criterion 1b determines if the PBL reform program comprises policy actions that provide support to activities that contradict the Paris Agreement's mitigation goals under all circumstances, as defined by the universally not-aligned list. If the PBL reform program has policy actions that support activities that are considered universally not-aligned⁸, the PBL program is considered *not aligned with mitigation goals*.
16. If the response is 'no', the assessment continues to Step 2.

⁷ The criteria outlined below may not be relevant for reform programs in certain policy areas (e.g., civil service reform). In such cases, the response to the relevant criteria could be 'not applicable' supported by a transparent justification, and the assessment can proceed to the subsequent criteria. Reform programs for which all criteria are 'not applicable' can be considered Paris Aligned.

⁸ This currently includes mining of thermal coal and peat, electricity production from coal and peat.

ii. STEP 2

Criterion 2a: Do the policy actions supported by the PBL program lead to a significant increase in GHG emissions? Do they introduce or reinforce persistent barriers to use/ transition to lower-carbon means to achieve stated development objectives (i.e., there is a significant carbon lock-in risk)?

17. Criterion 2a assesses if the PBL reform program comprises policy actions that are likely to result in significant GHG emissions. It also determines if the reform program supports policy actions that introduce or reinforce persistent barriers to use /transition to lower carbon means in support of the development objective(s). If the program favors a significant increase in GHG emissions and also introduces or reinforces barriers to the low-carbon transition, then there is a risk of carbon lock-in.
18. If the response to this criterion is 'no' for all relevant policy actions, the PBL reform program is not expected to lead to carbon lock-in. It is considered *aligned with mitigation goals* and no further assessment is needed. If the response is 'yes' for one or more policy actions, the assessment continues to criterion 2b.

Criterion 2b: Are risks identified being adequately mitigated?

19. If there are substantial risks that PBL-supported policy actions would lead to carbon lock-in, these risks would need to be identified, managed and mitigated, given the sector and country context and the operation's development objective, taking account of low-GHG development pathways consistent with the objectives of the Paris Agreement. Addressing these risks can be done through existing country systems. If the country's system has any major shortcoming, risks identified can be mitigated through adjusting the relevant policy or institutional actions; or other means to mitigate the risks.
20. If the risks for relevant policy actions under the PBL-supported program are adequately managed and mitigated, the PBL operation is assessed as aligned with climate mitigation goals. If the risks are not managed or mitigated, the policy action is not aligned with mitigation goals and should not be supported by the PBL.

4.2 Assessing Alignment of the PBL Reform Program with Adaptation and Resilience Goals (BB2)

21. A PBL operation is aligned with climate adaptation and resilience goals when its design incorporates fit-for purpose resilience features responding to risks from current or future climate change impacts. To assess this, the following question is asked:

Criterion 1a: Are risks from climate hazards likely to have an adverse effect on the development objective(s) of the PBL reform program's policy actions?

22. The design of a policy action may not fully consider the country's vulnerabilities to climate hazards to achieve the PBL development objective. This risk should be assessed in the context of the country, and in particular taking into account any relevant country systems and institutional capacity which may inform the level of risk. Unintended adverse effects from a PBL reform program on a country or sector's vulnerability to climate hazards should be identified, managed and mitigated, which may be addressed through existing policies applying to PBLs in each institution.
23. If the effectiveness of all the policy actions is unlikely to be significantly impacted by risk from climate hazards, the PBL reform program is considered *aligned with adaptation and resilience goals*. If it is likely for one or more policy actions, the assessment continues to Criteria 1(a).

Criterion 1b: If yes, does the design of the policy action(s) reduce the risk to an acceptable level, considering climate resilience/adaptation good practices?

24. If policy actions' contribution to the PBL reform program development objective(s) is at risk, the MDB should confirm that the design reflects climate resilience/adaptation good practices mitigating the risks from current or future climate change impacts to ensure the satisfactory achievement of the overall PBL development objective.
25. Addressing climate risks associated with a PBL reform program can be done through existing country systems. If the country lacks such a system or the country's system has any gaps, risks identified can be mitigated through adjusting the relevant policy action; including additional policy actions, or other measures outside the PBL operation, that may be supported for example by technical assistance or investment projects (by the MDB or other development partners for example).

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations

Direct Investment Lending Operations

List of Activities Considered Universally Aligned with the Paris Agreement's Mitigation Goals or Not Aligned with the Mitigation Goals

Version 1.0 June 2023



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These principles were prepared by a group of multilateral development banks (MDBs), composed of the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Development Bank (IsDB), the New Development Bank (NDB) and the World Bank Group (WBG).

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List of Activities Considered Universally Aligned with the Paris Agreement's Mitigation Goals or Not Aligned with the Mitigation Goals

Building on the discussion on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment for Direct Investment Lending Operations, this note presents the lists of activity types that are currently considered to always be consistent or inconsistent with low-greenhouse gas (GHG) development pathways. It is important to stress that these lists are expected to be revised over time, as additional evidence becomes available to help determine which operations are or are not Paris-aligned, under which conditions.

1. Activities Considered Universally Aligned

Operation types included on this draft list will have to go through the specific criteria assessment if they fall under any of the following:

- Operations whose economic feasibility depends on external fossil fuel exploitation, processing, and transport activities.
- Operations whose economic feasibility depends on existing fossil fuel subsidies.
- Operations that rely significantly on the direct utilization of fossil fuels.

Table 1. Activities considered universally aligned with the Paris Agreement's mitigation goals

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

Sector	Eligible operation type	Conditions and guidance
	Manufacture of components for renewable energy or energy efficiency.	
Agriculture, forestry, land use and fisheries	Afforestation, reforestation, sustainable forest management, forest conservation, soil health improvement.	With the exception of operations that expand or promote expansion into areas of high carbon stocks or high biodiversity areas.
	Low-GHG agriculture, climate-smart agriculture.	With the exception of operations that expand and promote expansion into areas of high carbon stocks or high biodiversity areas and taking into account (international) transport.
	Conservation of natural habitats and ecosystems.	With the exception of operations that expand or promote expansion into areas of high carbon stocks or high biodiversity areas.
	Fishing and aquaculture.	
	Non-ruminant livestock with negligible lifecycle GHG emissions.	
	Flood management and protection, coastal protection, urban drainage.	
Waste	Separate waste collection (in preparation for reuse and recycling), composting and anaerobic digestion of biowaste, material recovery, and landfill gas recovery from closed landfills.	
Water supply and wastewater	Water supply systems (e.g., expansion, rehabilitation); water quality improvement; water efficiency (e.g., non-revenue water reduction, efficient process in industries); drought management; water management at watershed level.	Desalination plants need to go through specific assessment
	Gravity-based or renewable energy-powered irrigation systems.	
	Wastewater treatment (domestic or industrial), including treatment and collection of sewage, sludge treatment (e.g., digestion, dewatering, drying, storage), wastewater reuse technology, resource recovery technologies (e.g., biogas into biofuel, phosphorus recovery, sludge as agriculture input, sludge as co-combustion material),	
Transport	Electric and non-motorized urban mobility.	
	Roads with low traffic volumes providing access to communities which currently do not have all-weather access (for example, connecting farmers to markets or providing access to a rural school, hospital, or better social benefits).	Except if there is any risk of contributing to deforestation
	Electric passenger or freight transport.	
	Short sea shipping of passengers and freight ships.	
	Inland waterways passenger and freight transport vessels	
	Port infrastructure (maritime and inland waterways).	

Sector	Eligible operation type	Conditions and guidance
	Rail infrastructure.	
	Road upgrading, rehabilitation, reconstruction, and maintenance without capacity expansion.	
Buildings and public Installations	Buildings (education, healthcare, housing, offices, retail, etc.).	Needs to meet green building certification criteria as established by each individual MDB ¹ .
	LED street lighting.	
	Parks and open public spaces.	Excluding energy-consuming installations ² .
Information and communications technology (ICT) and digital technologies	Information and communication.	Data centres need to go through specific assessment
Research, development, and innovation	Professional, scientific, research and development (R&D), and technical activities.	
Services	Public administration and compulsory social security.	
	Education (excluding infrastructure/buildings).	
	Human health and social work activities (excluding infrastructure/buildings).	
	Social protection, cash transfer schemes.	
	Arts, entertainment, and recreation (excluding infrastructure/buildings).	
Cross-sectoral activities	Conversion to electricity of applications that currently use fossil fuels.	

2. Activities Considered Universally Not Aligned

At this time, the MDBs consider four activity types to be universally not aligned with the Paris Agreement's mitigation goals:

- Mining of thermal coal.
- Electricity generation from coal.
- Extraction of peat; and
- Electricity generation from peat.

Note that the fact that being omitted from this list does not mean that an operation type is endorsed by or will be financed by the MDBs.

¹ MDBs are working on the approach to assess the Paris alignment of buildings and the role of certification schemes. This approach can also take into account the impact of materials on the alignment of buildings with the low-carbon pathways envisioned by the Paris Agreement.

² Energy-consuming installations are those beyond lighting and routine maintenance such as watering. Examples are major built-up area (i.e., buildings) or energy-intensive installations (e.g., fountains or playground and recreational equipment that need a non-renewable power source).