



Approaches to Meeting the Paris Agreement Goals

Options for Public Development Banks

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ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, the UK, and the US.



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The Institute for Climate Economics (I4CE) is a non-profit research organization that provides independent policy analysis on climate change mitigation and adaptation. We promote climate policies that are effective, efficient, and socially fair. Our experts engage with national and local governments, the EU, international financial institutions, civil society organizations, and the media.

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EXECUTIVE SUMMARY

Since the adoption of the Paris Agreement in 2015, several public development banks (PDBs) have responded with structured approaches to align their operations with the Agreement's expectations (as described in Section 1). However, many PDBs, particularly those in emerging markets and developing economies, are yet to adopt an approach to align with the Paris Agreement (i.e., Paris alignment).

As entities whose investment mandates are established by the Parties to the Paris Agreement (i.e., national governments), PDBs have specific obligations derived directly from these Parties' commitments to act across all policy and regulatory frameworks under their jurisdictions, including for state-owned or state-mandated institutions and agencies. Accordingly, PDBs are expected to operate in a manner that supports the achievement of the Paris goals. More specifically, they are obligated to integrate their activities within the Agreement's implementation mechanism by providing financial, technical, and capacity-building support that is entirely consistent with national low-emission climate-resilient development pathways.

Paris alignment is defined in this context as a response to the specific Paris Agreement expectations vis-a-vis PDBs' integration within the Agreement's means of implementation.¹ To be Paris-aligned, a PDB must orient its operations to provide financial, technical, and capacity-building support that is entirely consistent with recipient countries' low-emission climate-resilient development pathways.

This concept of Paris alignment differs fundamentally from approaches that focus on reducing a financial institution's financed emissions on a trajectory consistent with the Agreement's overall temperature objectives or that suggest the adoption of a set of climate actions commonly observed by financial institutions.

While neither of the alternative Paris alignment concepts above is sufficient to facilitate full alignment of PDBs, some of their components have been used as benchmarks for alignment.

This report aims to provide actionable insights for PDBs seeking to align their activities with the objectives of the Paris Agreement by evaluating the main approaches adopted by financial institutions and identifying the key operational benchmarks used to support the implementation of these approaches.

APPROACHES TO MAINSTREAMING PARIS AGREEMENT OBJECTIVES

The approach primarily adopted by PDBs is "project-level alignment," oriented around project-level assessments to ensure that new financing activities fully align with recipient countries' low-emission climate-resilient development pathways. The primary objective of this approach is the integration of PDB activities within such pathways, facilitating a transition that is consistent with the Paris Agreement's long-term temperature and climate resilience goals.

¹ The specific expectations facing PDBs under the Paris Agreement are summarized in Section 1.1.

On the other hand, private financial institutions have typically adopted the “portfolio-level net-zero” approach, which aims to achieve net-zero financed emissions at the portfolio level. While there is substantial variation in how this approach is implemented, it generally entails an accounting of financed emissions in an institution’s portfolio, then setting a year-on-year emissions reduction trajectory benchmarked against Paris temperature goals. In addition, private financial institutions have also adopted fossil fuel exclusions and counterparty engagement strategies to advance their mitigation efforts.

The portfolio-level net-zero approach is far narrower than the project-level alignment approach because it does not obligate consistency with low-emission climate-resilient development. Accordingly, the implementation of a portfolio-level net-zero approach alone would not achieve Paris alignment for PDBs.

This divergence in approaches results from the fundamentally different expectations that public and private financial institutions face under the Paris Agreement (see Section 1) and the distinct incentives driving their investment activities. Despite this divide, PDBs should at least be aware of how private-sector clients and partners are approaching climate action and, in some cases, may even benefit from strategically adopting aspects of the portfolio-level net-zero approach themselves (see Section 2.4).

While there are myriad ways in which these high-level approaches are implemented across institutions, they are guided by a handful of key methodological frameworks, as shown in Table ES1.

Table ES1. High-level approaches and their methodological frameworks

High-level approach	Examples of methodological frameworks
Project-level alignment	<ul style="list-style-type: none"> ▪ Joint MDB Methodological Principles & MDB Building Blocks² ▪ International Development Finance Club (IDFC) Operationalization Framework³
Portfolio-level net zero	<ul style="list-style-type: none"> ▪ The Glasgow Financial Alliance for Net Zero (GFANZ) Measuring Portfolio Alignment: Enhancement, Convergence⁴ ▪ The Science-Based Targets initiative (SBTi) measuring portfolio alignment⁵

ALIGNMENT APPROACHES’ USE OF OPERATIONAL BENCHMARKS

The above methodological frameworks are underpinned by operational benchmarks that can help steer each institution’s financial flows toward Paris alignment. The 11 most common benchmarks are mapped by methodology in Table ES2 and each benchmark is described in Section 3 of this report.

² World Bank, 2018

³ Lütkehermöller et al, 2021

⁴ GFANZ, 2022

⁵ SBTi, 2022

Table ES2. Methodological frameworks steering financial institutions' Paris alignment.

Operational Benchmark	MDB Building Blocks	IDFC Operationalization	GFANZ	SBTi
Portfolio Emissions Tracking			✓	✓
Project Emissions Tracking		✓	✓	✓
Absolute or Relative Emissions Targets			✓	✓
Shadow Carbon Pricing			✓	✓
Inclusion Lists	✓	✓		
Exclusion Lists	✓	✓	✓	✓
Scenario Modeling	✓	✓	✓	✓
Consistency with National Development Pathways	✓	✓		
Transition Risk Assessments	✓	✓	✓	✓
Physical Risk Assessments	✓	✓	✓	✓
Counterparty Engagement Targets for Alignment	✓	✓	✓	✓

To effectively advance all of the Paris Agreement goals, PDBs should select and integrate operational benchmarks that are both practical and impactful. The MDBs' joint Paris alignment approach (the MDB building blocks) offer a foundational approach for PDBs, focusing on improving understanding of their role in achieving the Paris goals and incentivizing the maximization of their impacts to this end. In addition, the concept of “do no harm” should be instilled as a minimum condition for PDB financing activities. PDBs should also seek to use benchmarks to maximize synergies between climate and other objectives in order to make efficient use of human and material resources and ensure applicability to the broad universe of PDBs.

Each of the various operational benchmarks offers distinct strengths and weaknesses for PDBs, depending on the bank's client base and existing level of Paris alignment. While benchmarks can provide transparency, accountability, and measurable guidelines, employing the wrong ones can create operational challenges or conflict with existing priorities or mandates. Additionally, the associated technical capacity and resource requirements may become a hindrance.

KEY TAKEAWAYS FROM CASE STUDIES

To better understand the methodological frameworks for Paris alignment approaches (e.g., the MDB building blocks) and the operational benchmarks adopted by financial institutions, this report presents six case studies examining the practices of five PDBs and one private financial institution.

These case studies have yielded the following key takeaways:

1. **All five PDBs featured have taken a project-level approach to Paris alignment, using multiple operational benchmarks to complete their assessments.**
2. **Several PDBs have also integrated a net-zero portfolio approach; two use this to facilitate engagement with private-sector counterparts, while another uses its approach to align institutional activities more closely with the national climate goals of the countries in which they operate.**
3. **A strong program for counterparty engagement is crucial to the implementation of either approach.**
4. **PDBs that are active across multiple geographies and sectors require wider operational benchmarks to contextualize their alignment assessments.**

CONCLUSIONS AND RECOMMENDATIONS

Our analysis of Paris alignment approaches, their constituent operational benchmarks, and key takeaways from case studies has led to the following conclusions and recommendations. These aim to guide PDBs in developing and improving their alignment approaches at various stages of implementation.

1. Project-level alignment forms the foundation of PDB support for Paris Agreement goals.

1a: PDBs that have not yet adopted a comprehensive alignment approach should start by outlining a project-level alignment approach to ensure that their future projects support the national low-emission climate-resilient development pathways of the countries in which they operate.

1b: Assessments of project-level alignment should use operational benchmarks that are as context-specific as possible, ideally incorporating context-specific aspects such as national development priorities, sectoral transition pathways, and transition and physical risks.

1c: In countries where national low-emission climate-resilient development pathways are yet to be established or lack detail, PDBs can engage national governments to develop long-term strategies and scenarios, along with corresponding financing plans, thereby connecting the project-level approach with the whole-of-institution approach.

2. Integrating operational tools from the portfolio-level approach can provide strategic benefits for banks that work closely with the private sector or operate in tandem with other governmental agencies on mitigation.

2a: PDBs that work frequently with private-sector clients should assess whether many of these clients have set transition planning and emissions targets (if relevant in the context of their operations).

2b: PDBs in markets where transition planning and emissions targets are common – or may soon become so due to new regulations, industry standards, or institutional peer pressure – should consider integrating tools from the net-zero portfolio approach to facilitate productive engagement with the transition approaches of private-sector clients and partners.

2c: PDBs that incorporate a portfolio-level net-zero approach must follow best practices for setting interim emissions targets, maintaining reporting and verification, and engaging with counterparties on emissions reduction. These practices should be communicated to clients and replicated by them where feasible.

2d: PDBs that have an advanced Paris alignment approach focused on providing transition finance and transformative impacts, as well as activities aimed at supporting the systemic and structural changes needed for a low-emission transition, may find that the net-zero approach contradicts their climate policies and even their development mandates, as limiting portfolio emissions would also limit their investment in transition activities.

3. Paris alignment is an evolving and ongoing process that requires consistent board and senior management support.

3a: PDB governance bodies need to fully engage in the planning and operationalization of a Paris alignment approach to ensure that it is properly implemented and clearly understood across all sub-departments and processes. This underscores the importance of board and senior management ownership of the process.

3b: Furthermore, PDB governance bodies, leadership, and internal operations teams should formally review their Paris alignment approaches on a regular basis to identify any possible gaps and revise benchmarks against any changes to low-emission climate-resilient development pathways and the latest science-based targets.

4. Stakeholder engagement is key to developing and implementing a Paris alignment approach.

4a: As PDBs develop alignment approaches, they should encourage clients and other external stakeholders to align their internal operations and client relations with suitable alignment approaches.

4b: Where financing activities fail to achieve the desired objectives of aligning clients' goals with those of the Paris Agreement, PDBs should continue to engage with clients and other external stakeholders, especially their boards and shareholders. This is particularly important for PDBs that work with corporate clients, to track progress towards corporate transition goals.

4c: PDBs should also engage with each other through networks such as Finance in Common, which facilitate the sharing of best practices for the development and implementation of alignment approaches.

5. Further research can seek to identify which investments and support activities deliver systemic or transformative impacts.

5a: PDBs that have already implemented a comprehensive alignment approach can seek to develop methods and operational benchmarks to assess impacts. These can go beyond the direct mitigation or adaptation benefits generated by projects to assess the potential for systematic or transformative outcomes that support the large-scale changes needed to transition to low-emission and climate-resilient economies.

5b: Similar to alignment, impact assessment will require context-specific information that accounts for differences in national low-emission climate-resilient development pathways.

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INTRODUCTION

Large-scale mobilization of climate finance by public financial institutions is critical to closing the climate investment gap (Pinko et al., 2022). Public finance is required to help mobilize private investment and facilitate growth in nascent climate sectors, particularly in emerging markets and developing economies (EMDEs), where climate investment needs are projected to total at least USD 1 trillion a year by 2030 (Songwe et al., 2022).

Public actors provided an annual average of USD 640 billion in climate finance in 2021/2022, just over half of the total (Buchner et al., 2023). Between 2011 and 2020, climate finance from public sources increased at a compound annual growth rate of 9.6% (Naran et al., 2022).

Given their development-focused mandates and ability to link diverse financial and political actors, public development banks (PDBs) — defined here as all types of public financial institutions including multilateral development banks (MDBs), national development banks (NDBs), development finance institutions (DFIs) — have a major opportunity to drive the transition to net zero amid increasing political and economic volatility, while also contributing to resilient economies (Cochran et al. 2019; Pinko et al., 2022). NDBs will be particularly important in driving required investment and supporting their national economies to shift financial flows towards a climate-resilient transition to achieve Paris Agreement goals. CPI tracking indicates that just over 37% of public climate finance came from NDBs in 2021/2022 (Buchner et al., 2023). Efforts to reform the international financial architecture are focused on increasing the global volume and effectiveness of climate finance.

Since 2015, PDBs have increasingly worked towards the Agreement's high-level objectives and to align their operations with the implementation mechanism of the Paris Agreement by providing financing, technical, and capacity-building support for national low-emission climate-resilient development pathways. While initial groundbreaking efforts by MDBs, DFIs, and other PDBs have developed the MDB Building Blocks and set a standard for structuring and implementing Paris alignment approaches, many PDBs have yet to do so, particularly those operating in EMDEs (Pinko et al., 2022).

In general, PDBs have primarily approached Paris alignment (see Section 1.1 for a specific definition) through the "project-level alignment" approach, which requires projects supported by PDBs to be consistent with low-emission climate-resilient development pathways. Contrastingly, private institutions have mainstreamed climate considerations through the "portfolio-level net zero" approach, which aims to set financed emissions pathways in line with Paris Agreement temperature goals. These distinct approaches result from the fundamentally different expectations facing PDBs and private financial institutions under the Paris Agreement and thus correspond to wholly different objectives.

Within this context of diverging public and private-sector practices, PDBs must not only develop and implement iterations of the project-level alignment approach that best suit their activities, but also ensure that their approach leaves room for productive engagement on climate finance with other public and private entities. As the dynamic between PDBs

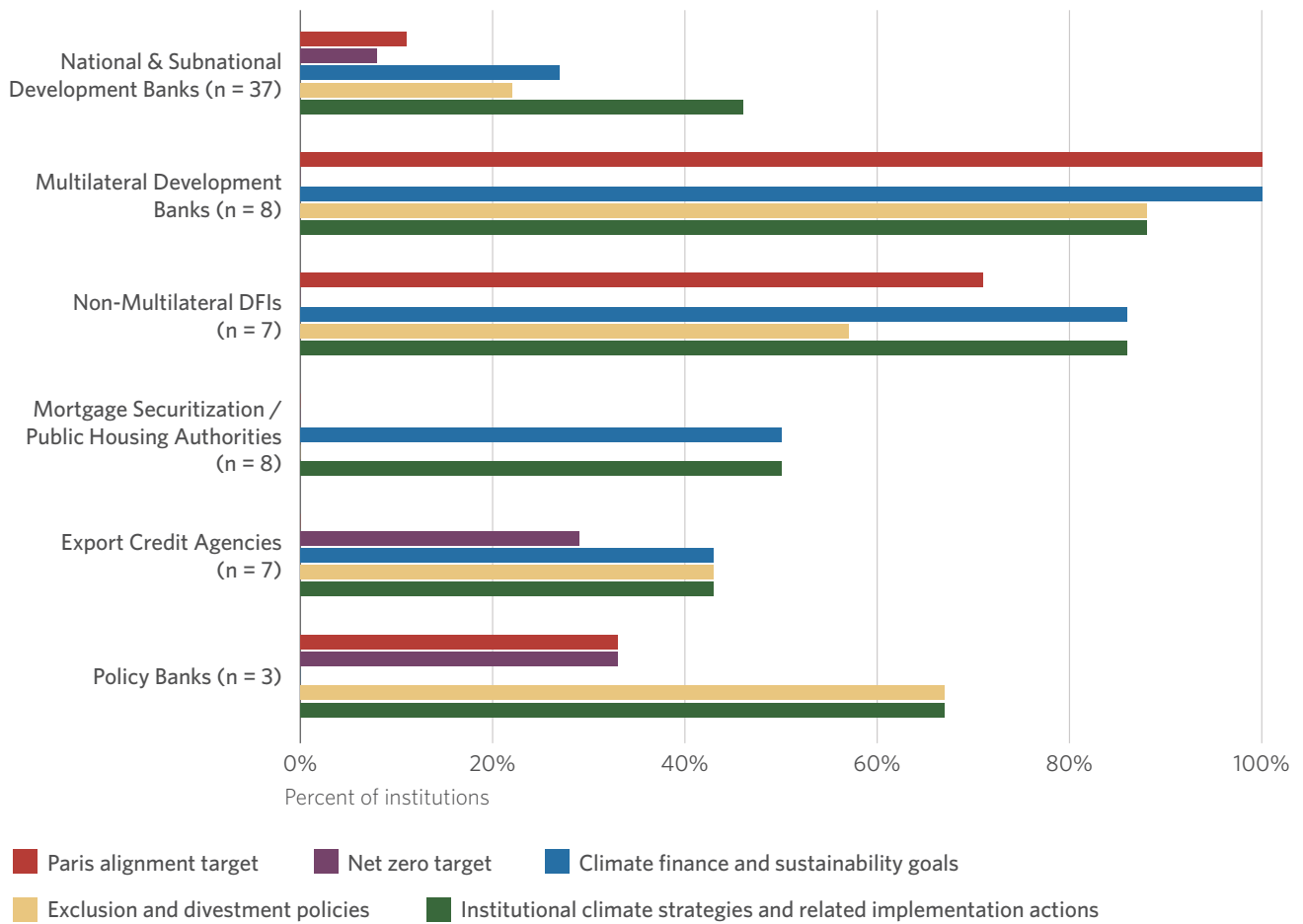
and their partners evolves, it will be important to account for these diverse objectives and operating models while ensuring that prioritized methods and approaches are the most appropriate to achieve low-emission climate-resilient development pathways.

RESEARCH MOTIVATIONS AND REPORT STRUCTURE

For the last two years, CPI has tracked the climate commitments made by the 70 largest public financial institutions included in the Finance in Common PDBs and DFIs Database, collected by the Institute of New Structural Economics at Peking University in collaboration with the Agence Française de Développement (Peking University, 2023). These 70 PDBs cover 94% of global PDB assets under management. The latest tracked climate commitment data, shows that as of 2023 17 of these 70 institutions had made Paris alignment commitments, five had set net-zero commitments, and one (the Development Bank of Brazil, BNDES) had done both (Chin, 2023).

This research indicates that a large segment of PDBs have yet to develop and/or publicly adopt any approach to aligning their operations with the Paris Agreement.

Figure 1. Climate commitments across the 70 largest PDBs by type (%)⁶



⁶ The data in Figure 1 was prepared by CPI for this report as an update on those presented in Public Financial Institutions’ Climate Commitments: 2023 Update

This report aims to provide clarity on the two broad Paris alignment approaches that have been developed and their relevance to PDBs. It also presents a practical understanding of the methods and tools available to facilitate the implementation of an impactful and pragmatic alignment approach.

It does so by evaluating the existing approaches to Paris alignment, as well as key operational benchmarks used by financial institutions to help judge their progress. We have assessed the strengths and weaknesses of these benchmarks and synthesized this analysis into high-level recommendations on how PDBs can deploy them. This analysis was informed by interviews with experts from private and public financial institutions, desktop research on current literature, and published guidance from PDBs.

This report is structured as follows:

- **Section 1** summarizes the role of PDBs in supporting the Paris Agreement.
- **Section 2** provides an overview of current PDB approaches to aligning institutional practices with this role.
- **Section 3** discusses operational benchmarks used to guide alignment and analyzes their respective strengths and weaknesses.
- **Section 4** details the key findings from the case studies, highlighting how alignment is implemented in practice.
- **Section 5** lays out conclusions and recommendations.

1. PDBS' STRATEGIC ROLE IN SUPPORTING THE PARIS AGREEMENT

1.1 WHAT THE PARIS AGREEMENT ASKS OF PDBS

As entities with investment mandates established by Parties to the Paris Agreement (i.e., national governments), PDBs have specific obligations derived directly from these Parties' commitment to act across all policy and regulatory frameworks under their jurisdictions, including for state-owned or state-mandated institutions and agencies.

Accordingly, PDBs' operations should support the achievement of the Paris Agreement goals by providing financing and technical support for national low-emission climate-resilient development pathways. PDBs should align their operations to support the goals stated in Article 2.1 of the Paris Agreement, as shown in Box 1.

Box 1. Paris Agreement Article 2.1

2.1a: Holding the increase in global average temperatures to well below 2°C above preindustrial levels and pursuing efforts to limit the temperature increase to 1.5°C above preindustrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.

2.1b: Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas (GHG) emissions development, in a manner that does not threaten food production.

2.1c: Making finance flows consistent with a pathway towards low-GHG emissions and climate-resilient development.

Given their development finance mandates, PDBs' operations are most directly relevant to Article 2.1c, which they view as a means to achieving Articles 2.1a and 2.1b and the implementation mechanism of the Paris Agreement. However, PDBs should also seek to ensure that the impacts of their financing activities contribute to progress on Articles 2.1a and 2.1b or, at a minimum, do not undermine these objectives. The impacts of PDB financing activities are not limited to direct impacts (e.g., financed emissions), as these activities are often designed to produce large indirect impacts by mobilizing private investment, developing transition infrastructure, and demonstrating the viability of key business models and technologies; all of these aspects must be considered when assessing overall "impact."

While the Paris Agreement does not define the terms "financial flows" and "consistent," Article 2.1c is broadly interpreted to require alignment of all financial flows, not only dedicated to climate finance but also those that have climate co-benefits and those that

previously had no climate impact or may even have undermined climate goals (Clark et al., 2019), including the internal activities of PDBs. This emphasizes the need for all financial flows to be consistent with the transition to low-emission climate-resilient development.

In addition to supporting Article 2.1, PDBs, as the financing vehicles of Paris Agreement signatories (the Parties), face further directives to support the implementation mechanism of the agreement. Article 2.2 states that agreement objectives “will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capacities, in light of different national circumstances.” This principle is embodied in the country-level climate goals communicated in nationally determined contributions (NDCs) and supported by long-term strategies (LTSs) for low-GHG emissions development, as detailed in Paris Agreement Article 4. These documents define the national low-emission climate-resilient development pathways that underpin the implementation mechanism of the agreement. As such, a key task for PDBs is to provide financing support for the policies, programs, and projects that lead to the development and realization of NDCs and LTSs (Bendahou et al., 2022).

Article 4.4 distinguishes between the expectations for developed country Parties to “lead by undertaking economy-wide absolute emission reduction targets” and the for developing country Parties to “continue enhancing their mitigation efforts” and “move over time towards economy-wide emission reduction or limitation targets in the light of different national circumstances.” The Paris Agreement thereby implies the adoption of country-specific, economy-wide approaches based on national development pathways, the sum of which leads to the reductions in GHG emissions and climate-resilient development referred to in Article 2.1c.

Finally, Article 9 of the agreement stipulates that financial assistance for both adaptation and mitigation must be provided to developing countries by developed countries. Accordingly, developed country PDBs with an overseas development assistance mandate (e.g., MDBs and bilateral DFIs and agencies) are key vehicles for this component of Paris implementation, specifically the provision of climate finance under the UNFCCC collective quantified goal.

Alignment with the Paris Agreement (or “Paris alignment”) is defined in this context as a response to the specific Paris Agreement expectations vis à vis PDBs integration within the Agreement’s means of implementation. That is to say, a PDB that has oriented its operations to provide financial, technical, and capacity-building support that is fully consistent with national low-emission climate-resilient development pathways is considered to be aligned. This concept of Paris alignment differs fundamentally from other acceptations that either aim to reduce a financial institution’s financed emissions on a trajectory consistent with the overall temperature objectives of the Paris Agreement or suggest comprehensive adoption of climate action commonly among financial institutions.

This definition shapes PDBs’ individual approaches to Paris alignment, which are accordingly distinguished by a strong focus on support for the development, implementation, and financing of low-emission climate-resilient development pathways. This stands in contrast to the alignment expectations and approaches of private actors, as outlined in Box 2.

Box 2. What the Paris Agreement asks of private financial institutions

Private financial institutions face increasing pressure from industry coalitions, civil society, consumers, government regulators, and some shareholders to align their financing activities with Paris Agreement objectives. However, as private financial institutions are not wholly owned by the Parties to the agreement, this obligation does not extend to participation in the agreement's implementation mechanism.

Some private financial institutions have begun to align their portfolios with the temperature objectives of the Paris Agreement, in response to shareholder advocacy and in anticipation of economic and financial regulations from signatory governments. Some private financial institutions are also driven to climate action by their fiduciary duty to protect assets from the climate transition (i.e., by avoiding stranded assets) and physical climate risks.

As a result, an increasing number of private financial institutions have made 'Paris alignment' commitments to mainstream climate goals into their operations. To date, private institutions have tended to frame these efforts around portfolio emissions trajectories — which, depending on scope coverage, may be relatively easy to report to shareholders, industry peers, and other fiduciary stakeholders (Solomon, 2022).

This portfolio-level net-zero approach can help to reduce financed emissions on a pathway consistent with the global temperature goal stated in Article 2.1a of the Paris Agreement but does not necessarily encompass the objectives stated in Articles 2.1b and 2.1c. Such an approach does not allow for adequate scrutiny of the real economy transition of GHG-intensive projects. It also does not address support for nationally determined low-emission climate-resilient development pathways, which are not reflected by a particular emissions trajectory at the portfolio or sectoral level.

1.2 PDB ACTION TO SUPPORT THE PARIS AGREEMENT

The roles and responsibilities that PDBs can assume in accelerating the net-zero transition and climate resilience are wide ranging due to their variation in size, structure, mandate, geographical and sectoral focus, and the political contexts in which they operate. Existing literature outlines PDBs' actions in advancing the Paris Agreement goals as follows:

1. **Helping to shape national and international policy frameworks and standards to create enabling conditions for investment that are consistent with the climate transition.**

PDBs can offer various forms of financial and non-financial support to advance the systemic and structural changes needed for the climate transition across and within national economies (Kachi et al., 2022; Cochran and Pauthier, 2019).

At the national level, PDBs can provide technical assistance and capacity-building support to governments in the development and implementation of country-wide climate policies, including NDCs, LTSs, National Adaptation Plans, benchmarks for adaptation action, and energy transition plans. Public policy loans are a powerful instrument for PDBs to support conducive legal, fiscal, and institutional environments for investments that are consistent

with and/or support the climate transition at the country level, including through engagement with finance ministries, central banks, and regulators.

Within domestic private sectors, PDBs can support innovation needs, foster private-public partnerships, and encourage best practices for climate risk management and reporting frameworks.

At the international level, PDBs can establish partnerships with the wider financial community and exchange best practices for supporting **climate objectives**. Platforms such as the International Development Finance Club (IDFC), Finance in Common, and Mainstreaming Climate in Financial Institutions have facilitated the exchange of expertise and fostered cooperation between leading PDBs globally to further the UN Sustainable Development Goals and the Paris Agreement objectives.

2. **Supporting the development and deployment of projects and initiatives consistent with low-emission climate-resilient development.** Regardless of their mandate, PDBs can promote the climate transition by (directly and indirectly) financing climate-specific projects, as well as by supporting the transition of economic sectors in a manner consistent with NDCs and global decarbonization pathways. For example, infrastructure-focused PDBs may finance renewable energy projects and climate-resilient infrastructure while also supporting national infrastructure strategies and prioritizing the roll-out of low-emission development plans. Mortgage securitization banks may need to address portfolio risks presented by the physical threats of climate change and can also explore green mortgages and insurance options.
3. **Supporting the development and execution of non-sovereign entities' low-emission and climate-resilient pathways.** PDBs provide financial and technical assistance to non-sovereign entities such as private enterprises and municipalities to facilitate their transition to sustainable and climate-resilient practices. This includes loans, grants, and equity investments for projects that align with climate mitigation and adaptation objectives. PDBs also provide advisory services, technical expertise, knowledge-sharing platforms, and capacity-building initiatives to enhance the capabilities of non-sovereign entities to integrate climate considerations into their development strategies.
4. **Mobilizing multiple sources of climate finance.** In addition to direct financing and lending, many PDBs also deploy various tools to mobilize other sources of public and private capital. At the most basic level, many PDBs use a core of paid-in or committed capital to leverage operational finance from capital markets via bond issuance. This is often seen as the most cost-effective means of mobilizing private institutional investor capital for climate goals, though it does sit fully on the balance sheet of the PDB itself.

Many banks are exploring or implementing other forms of private finance mobilization that do not sit on PDB balance sheets. For example, at the project development level, PDBs can increase investor interest by addressing sector- and country-specific constraints and risks, providing technical assistance to the private sector, and promoting an enabling environment for private investment (Smallridge et al., 2013). PDBs can also deploy a range of de-risking mechanisms and financial instruments, including guarantees and credit enhancements, loan syndication, green or sustainability-linked bonds, and blended international and public development finance, as well as supporting project development facilities.

- 5. Developing and accelerating transition finance instruments.** Given their mandates and understanding of domestic market dynamics, PDBs are strategically positioned to drive the development and acceleration of transition finance mechanisms. Some PDBs have also committed to phasing out fossil fuel financing or other fossil fuel exclusion policies while providing financing for a low-emission transition. To realize the 2050 net-zero ambitions, financing must extend beyond traditional green sectors to support the transition of high carbon-emitting industries such as coal-fired power generation, steel, cement, chemicals, aviation, and construction. Enhanced disclosures are required to ensure that investors can assess the credibility of transition finance commitments and avoid greenwashing.

2. APPROACHES TO MAINSTREAMING PARIS AGREEMENT OBJECTIVES

As financial institutions ramp up efforts to support the achievement of the Paris goals, two distinct, high-level approaches have emerged among public and private actors, each corresponding to the differing expectations of them under the agreement. As actual implementation varies significantly by institution, these high-level approaches are best viewed as umbrella concepts that inform a myriad of similar implementation strategies.

The primary approach adopted by PDBs is oriented around project-level assessments to ensure that new financing activities are fully aligned with the low-emission climate-resilient development pathways of recipient countries. The primary objective of this “project-level alignment approach” is the integration of PDB activities within such pathways, facilitating a transition consistent with the Paris Agreement’s long-term temperature and climate resilience goals.

On the other hand, private financial institutions typically aim to achieve net-zero financed emissions at the portfolio level. While there is substantial variation in how this “portfolio-level net-zero approach” is implemented, it generally entails accounting for financed emissions in an institution’s portfolio and then setting a year-on-year emissions reduction trajectory benchmarked against Paris temperature goals. Some private financial institutions following this approach have also adopted fossil fuel exclusions and counterparty engagement strategies to advance mitigation efforts.

Notably, the portfolio-level net-zero approach is far narrower than the project-level alignment approach in that it does not obligate consistency with low-emission climate-resilient development. Accordingly, the implementation of a net-zero portfolio alone would not constitute Paris alignment for PDBs.

Nevertheless, while project-level alignment and portfolio-level net-zero approaches are not substitutes for one another, it is important to assess the potential complementary aspects of the two approaches, as they jointly define the spectrum of frameworks used by financial institutions to orient their activities towards the Paris Agreement. PDBs and private financial institutions do not operate in a vacuum, and they frequently engage in financing and technical support across the entire landscape of climate sectors. Given the extent of these interactions, PDB alignment approaches have the potential to leverage complementary aspects of private-sector approaches to better support Paris implementation (see Section 2.4 for further details). For some PDBs, adopting components of the portfolio-level net-zero approach in their Paris alignment efforts may enhance their engagement with the private sector and facilitate long-term strategic coordination with other institutions. Examples of PDBs that have done so include the Development Bank of Brazil (BNDES), British International Investment (BII), and the European Development Finance Institutions (EDFIs).

Across both the project-level alignment and portfolio-level net-zero approaches, MDBs, DFIs, research organizations, non-governmental coalitions, and private-sector alliances have collaborated to establish methodological frameworks to guide implementation. In addition

to articulating the high-level principles of each approach, these methodologies include benchmarks that PDB practitioners can use to help ensure that their operations align with Paris objectives, as outlined in Table 1.

We note that the approaches described below pertain only to institutions' external activities (e.g., investment, client engagement, technical support) and not to internal activities, which are not covered by this report and may benefit from further research.

Table 1. Methodological frameworks for different approaches to supporting Paris Agreement objectives

Approach	Methodological framework	Description of guidance	Principles
Project-level alignment	Joint MDB Methodological Principles & MDB Building Blocks	A collaborative framework established by major MDBs to harmonize and standardize their approach to Paris alignment.	The six MDB building blocks cover direct investment, financial intermediation, policy-based lending operations, and general corporate finance for PDBs focused on the private sector. This includes low-emissions climate-resilient pathways, accelerated contribution to the transition through climate finance, engagement with borrowing countries on policy reforms to support Paris goals, and alignment of members' internal and financial activities.
	IDFC Operationalization Framework	Identifies and guides on a first selection of tools and approaches that an institution may use to start its alignment process.	Structured around the following key principles: Mobilize finance for climate action; Support country-led climate policies; Catalyze investment and mobilize private capital; Recognize the importance of adaptation and resilience; Support transition from fossil fuels to renewables; and Internal transformation of the institution. The framework outlines how IDFC members can align with the Paris Agreement at the strategic, operational, and country levels.
Portfolio-level net zero	Glasgow Financial Alliance for Net Zero (GFANZ)	Guidelines for private finance institutions, by actor type, to reach net zero portfolio emissions by 2050.	GFANZ alliances provide actor-specific guidance and perspectives on portfolio alignment methods and metrics, helping private financial institutions assess their progress on net-zero commitments. GFANZ also encourages the use of standardized metrics and methods, creating greater transparency and comparability across the financial sector.
	The Science-Based Targets Initiative (SBTi): Measuring Portfolio Alignment	Guidance on a portfolio coverage and temperature rating approach to help institutions set and achieve their net-zero targets.	Recommends emissions tracking, setting science-based targets, carbon budget management and engagement, and collaboration with portfolio companies on alignment.

2.1 PDB CASE STUDIES

To better understand the Paris alignment approaches taken by PDBs and the potential for harmonization with private-sector practices, the below case studies examine the practices of five public and one private-sector institution. The approaches adopted by each of these institutions are mapped in Table 2.

Table 2. Case study institutions by high-level approach

Financial institution	Project-level alignment	Portfolio-level net-zero
European Bank for Reconstruction and Development (EBRD)	✓	
Development Bank of Brazil (BNDES)	✓	✓
British International Investment (BII)	✓	✓
Agence Française de Développement (AFD)	✓	
Proparco	✓	✓
The Inter-American Development Bank (IDB)	✓	
Ninety One, a private-sector asset manager		✓

These case studies explore financial institutions' experience in developing and implementing Paris alignment approaches, with a focus on overcoming technical barriers and constructing approaches to fit within PDB mandates and operations. Learnings from this work are presented as key takeaways throughout the report. Detailed case studies for each institution are also presented in the Annex.

2.2 PROJECT-LEVEL ALIGNMENT APPROACH

The five case study PDBs all carry out Paris alignment assessments at the project level. These aim to determine the alignment of individual projects or transactions with national low-emission climate-resilient pathways,⁷ directly reflecting Paris Agreement Article 2.1c.⁸ This involves screening individual projects and transactions to assess their consistency with countries' NDCs, LTSs, and global or sectoral decarbonization pathways.⁹

The assessment is primarily forward-looking, reflecting these institutions' outcomes-focused transactions, including project finance, credit lines, and equity investments. The focus on new transactions stems from the rationale that, while the alternative approach of removing non-aligned assets from portfolios could improve PDBs' aggregate emissions footprint, it would lead to little or no emissions reductions in the real economy. As such, engagement with clients and counterparties at the pre-investment stage is a key part of improving the alignment of transactions, and as a result, PDBs do not usually apply this approach to pre-existing projects in their portfolios.

Two methodologies have gained traction for implementing the project-level approach: the **Joint MDB Methodological Principles & MDB Building Blocks** and the **IDFC Operationalization Framework**. These guide the determination of the alignment of financing activities through quantitative and qualitative criteria.

JOINT MDB METHODOLOGICAL PRINCIPLES & MDB BUILDING BLOCKS

The Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment (2023) builds on the MDB Building Block approach (MDB Climate Change Working Group, 2018),¹⁰ which was the first set of guidelines that aimed to define Paris alignment and identify ways that PDBs could adjust their actions to support the outcomes of the Paris Agreement. The MDB building block approach defines Paris alignment through institutional action across the following areas:

- i. Alignment with mitigation goals.
- ii. Adaptation and climate-resilient operations.
- iii. Accelerated contribution to the transition through climate finance.
- iv. Engagement and policy development support.
- v. Reporting.
- vi. Alignment of internal activities.

⁷ This involves initial classification as "always aligned," "always not aligned" or "in need of context-specific criteria." The last category refers to projects or transactions that straddle alignment but may be approved by PDBs if they meet an additional list of criteria.

⁸ While this approach is most relevant to Paris Agreement Article 2.1c, the impacts associated with its implementation can also be relevant to Articles 2.1a and 2.1b.

⁹ At minimum, this corresponds to a "do no harm" principle, meaning that an "aligned" project does not materially detract from Paris Agreement goals. However, where projects do not clearly contribute to mitigation or adaptation objectives, they must also be consistent with national low-emission climate-resilient development pathways to be considered "aligned."

¹⁰ The MDB Climate Change working group includes 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) Group; the Interamerican Development Bank Group (IDBG); the Islamic Development Bank (IsDB); the New Development Bank (NDB); and the World Bank Group (WBG).

Building blocks 1 and 2 form the basis for determining the alignment of financial flows with national low-emission climate-resilient development. Corresponding voluntary assessment methodologies for direct investment lending operations, policy-based lending, general corporate purpose financing, and intermediated finance are also available to help operationalize and implement national low-emission pathways. MDB building block 3 also builds on the need for a “substantial contribution,” which adds a requirement to actively contribute to the Paris goals.

These assessment methodologies involve a series of screening steps to determine the Paris alignment of any given project, transaction, or counterparty. While the screening criteria vary depending on the type of lending or investment operation, there are some commonalities. Most building block 1 assessment methodologies are supported by lists of “universally aligned” and “universally not aligned” activities, which aim to help MDBs harmonize Paris alignment assessments from a mitigation perspective (MDB Climate Change Working Group, 2023). Activities that do not fall under either category are further assessed for their consistency with the low-emission development pathways of countries’ NDCs and LTSs, as well as with global sector-specific decarbonization pathways.¹¹

Similarly, building block 2 focuses on seeking development benefits by increasing operations’ feasibility and by implementing measures to improve the climate resilience of financed infrastructure projects, populations, firms, and environments.

IDFC OPERATIONALIZATION FRAMEWORK

The Operationalization Framework on Aligning with the Paris Agreement was published in 2021 to provide guidance on how IDFC members’ organizational processes, strategies, and operations could better align with Paris goals (Lütkehermöller et al., 2021). Rather than providing one-size-fits-all requirements, the framework developed by I4CE and the NewClimate Institute sets out a range of options that institutions can apply based on their circumstances.

Similar to the Joint MDB Building Block approach, the IDFC Operationalization Framework is constructed around a set of core alignment principles, as follows:

- i. Mobilizing climate finance.
- ii. Supporting country-led climate-related policies.
- iii. Catalyzing investment and private capital.
- iv. Recognizing the importance of adaptation and resilience.
- v. Supporting the transition from fossil fuels.
- vi. Internal transformation of the institution.

For each principle, the IDFC Framework suggests assessment tools that facilitate alignment. Similar to the Joint MDB Methodological Principles, these tools include lists of activities included and excluded within Paris-aligned projects and also go further to propose the use of performance-based benchmarks as an alternative assessment measure (e.g., avoided

¹¹ This is determined using a set of Specific Assessment Criteria that weigh an activity against national and sectoral climate priorities. These criteria include consideration of asset stranding and transition risk facing potential investments.

emissions, energy savings, and mobilized climate finance). The IDFC additionally advises consideration of projects' consistency with sectoral and national transition pathways, as well as exposure to climate risks, and advocates that PDBs engage counterparties on their own emissions accounting and overall transition plans.

Takeaway 1: All five PDBs implement project-level alignment approaches, using multiple benchmarks to assess alignment.

PDBs often start by comparing proposed project activities against inclusion and exclusion lists and then progress to increasingly rigorous exercises, including other benchmarks as supplementary criteria to determine alignment.

For example, both the EBRD and IDB use the Joint MDB Methodological Principles—a multi-criteria assessment that includes initial inclusion/exclusion screenings followed by consideration of national low-emission climate-resilient development pathways, global sectoral models, carbon lock-in and transition risk, and physical risk.

Given its private-sector investment focus, the EBRD also examines high-emitting projects on the basis of shadow carbon pricing, enabling climate considerations to be integrated with cost-benefit analysis. Similarly, BII, AFD, and Proparco use multiple benchmarks to inform project alignment evaluations, adding supplementary benchmarks where further context is needed or to assess contributions to specific institutional target areas.

Benchmarks should be developed and adjusted based on the climate considerations specific to each PDB's operational context. The project-level alignment approach is an evolving process. PDB interviewees indicated that successful integration of alignment assessments requires a complete transformation of PDBs' project approval processes over several years. Even after benchmarks are established and operationalized, further technical revisions and data collection are often needed to render better insights.

2.3 PORTFOLIO-LEVEL NET-ZERO APPROACH

The portfolio-level net-zero approach was born out of the need to create simple and comparable metrics for private financial institutions to benchmark the emissions in their portfolios and, by doing so, track progress towards net-zero financed emissions by 2050. This approach is most relevant to Article 2.1a of the Paris Agreement, which sets the objective of keeping global temperature rise well below 2° C, with efforts to limit the rise to 1.5°C. It does not cover climate adaptation or resilience.

The portfolio-level net zero approach helps financial institutions to set and track independent interim goals for different portfolios at an aggregate level. In doing so, financial institutions have employed either an absolute emissions target or a carbon intensity target and, in some cases, both. An absolute target aims to reduce a set number of emissions relative to a base year, while a carbon intensity approach focuses on an emission reduction target set relative to an economic or operational metric. An example of an absolute target would be reducing

total emissions by 25% in 2030 against the 2010 baseline level, while an intensity approach could aim to reduce emissions by 25% per unit of output (loans generated) by 2030.

Each type of target has benefits and drawbacks:

- **Absolute targets** provide a clear baseline to be set and measured against, which supports transparency, comparison, and accountability. However, their focus on an institutional-wide approach renders them insensitive to sectoral improvement and efficiency, which can often obscure sectoral progress made. For example, a financial institution that is focusing on reducing its sectoral emissions in coal, cement and steel financing may not be able to fully show and compare its progress using an absolute emission target.
- **Carbon intensity targets** show sectoral improvements and comparability within institutions; however, where the baseline is not properly defined, this approach may not necessarily reduce total emissions compared to the absolute emissions target, where GHG reduction is clearly defined.¹²

Recognizing the varied nature of impacts expected according to different actors and approaches in tackling climate change highlights the necessity for a comprehensive and inclusive strategy. Absolute targets, focused on reducing overall emissions, offer a direct approach to achieving the Paris Agreement goals. Conversely, the carbon intensity approach, which measures emissions relative to economic output, provides a perspective that considers the efficiency of resource use and sectoral decarbonization goals. Both approaches acknowledge the multifaceted challenges of achieving Paris Agreement goals, and therefore, actors must carefully consider what approach aligns with their organizational objectives.

Key implementation methodologies under the net-zero portfolio approach have been created by the Glasgow Financial Alliance for Net Zero (GFANZ) and the Science-Based Targets initiative (SBTi).

GFANZ AND THE NET-ZERO BANKING ALLIANCE

The GFANZ Portfolio Alignment Measurement workstream has provided several sets of guidance highlighting tactics that private actors can use to align their portfolios with a net zero pathway. The workstream's latest report, *Measuring Portfolio Alignment: Enhancement, Convergence, and Adoption* (GFANZ, 2022), lays out illustrative quantitative and practitioner case studies for financial institutions seeking to develop and use portfolio alignment metrics.

Financial institutions can use such metrics to understand how aligned their portfolios are with net-zero goals and assess their efforts to redirect capital to transition finance strategies over time. To build metrics that assess emissions at the counterparty and portfolio level, GFANZ highlights key design judgments such as measuring alignment over shorter time horizons to reflect the required real economy emissions, the inclusion of Scope 3 value chain emissions, and preference more adequately for physical intensities over economic intensities especially for portfolios such as steel and cement.

The Net-Zero Banking Alliance (NZBA), the banking alliance under GFANZ, has also published guidelines recommending banks to, at minimum, set targets that are aligned with the 1.5°C limit, along with decarbonization targets to be achieved by 2030 (or sooner) and

¹² See GreenPortfolio's explainer on [Absolute vs. Intensity Emission Targets](#) for greater detail.

2050 (NZBA, 2024). The guidance recommends that targets be set based on absolute emissions and/or sector-specific emissions intensity (e.g., CO₂e/ metric).

Other GFANZ recommendations include prioritization of sectors based on GHG emissions, GHG intensity and/or financial exposure in their portfolio, evaluation of their clients' transition plans, establishment of an emissions baseline and annual measurement and reporting of their emissions profile, usage of accepted science-based decarbonization scenarios to set both long-term and intermediate targets that are aligned with a net zero by 2050 goal and regular review of targets to ensure consistency with current climate science.

SBTi

The SBTi uses the portfolio-level net-zero approach to help financial institutions track their emissions, set science-based targets, and manage their carbon budgets. The SBTi provides resources including a target-setting tool and a sectoral decarbonization approach to help financial institutions set science-based net-zero targets. SBTi members are required to provide a science-based target and climate transition plan, which the initiative vets to provide accountability.

SBTi aligns with the Task Force on Climate-Related Financial Disclosures (TCFD) guidance on climate-related metrics, targets, and transition plans, which establish a roadmap for organizations seeking to orient their operations and assets towards low-emission climate-resilient transition. With regards to emissions targets in particular, the TCFD recommends that financial institutions use forward-looking rather than historical metrics to measure and disclose their GHG emissions and align their portfolios with Paris Agreement goals.

2.4 PDBS AND THE PORTFOLIO-LEVEL NET-ZERO APPROACH

As net-zero portfolio initiatives have gained momentum in the private sector, questions have emerged over whether this approach has a role to play in PDBs' Paris alignment:

1. Should PDBs adopt the portfolio-level net-zero approach as their main Paris alignment framework?
2. If not, can PDBs use benchmarks from this approach to supplement an existing project-level alignment approach?

Taken alone, the portfolio-level net zero approach does not provide sufficient guidance for PDBs to comprehensively align with the Paris Agreement implementation mechanism or objectives. Neither a quantification of portfolio emissions nor a counterparty-level assessment of emissions trajectories (which would be critical for PDBs with sovereign counterparts) provides the necessary insights for PDBs to realize their unique role in financing national low-emission climate-resilient development pathways. National governments and sovereign entities, in many cases the key counterparties of PDBs, are fundamentally different from commercial actors in terms of mandate and structure. The complex aspects of countries' climate ambition — expressed via NDCs and LTSs — cannot be encapsulated in a quantitative emissions value alone.

Furthermore, the net-zero portfolio approach's focus on mitigation would not satisfy, and may even at times conflict with, PDBs' broader development mandates and climate goals, which require synergistic action on adaptation, biodiversity, and just transition projects. Overemphasis on absolute portfolio emissions reduction and a narrow emissions trajectory would compromise PDBs' development mandates and prevent them from engaging in carbon-intensive sectors in developing countries to facilitate the climate transition.

Choice of Paris alignment approach is also influenced by differences between commercial banks and PDBs on lending style (e.g., general corporate purpose loans vs. project loans; liquid assets vs. long-term commitments) and shareholder expectations (e.g., impacts vs. risk/return ratios). The portfolio-level approach is much more effective for tracking investment impact for commercial banks, especially when tied to strong counterparty engagement.

Nevertheless, some PDBs may adopt operational benchmarks from the portfolio-level net zero approach to complement their project-level alignment approach. These tools can enhance collaboration with counterparties on mobilizing climate investment or advance PDBs' own mandates to reduce emissions in line with countries' NDCs or LTSs. Of the case study institutions, BNDES, BII, and Proparco have programs that consider benchmarks from the portfolio-level net zero approach.

Although reductions in financed emissions are not indicative of PDBs' mitigation impact or overall Paris alignment, given the wide array of indirect mitigation impacts created by PDBs' ongoing support for low-emission climate-resilient development, collection of emissions inventories from clients can serve a strategic purpose. In particular, tracking emissions intensity on a per unit of investment basis at the sector or asset-class level against benchmarks for low-emission development (i.e., counterparty transition strategies or sectoral scenarios) can help PDBs to identify segments of their portfolios where further decarbonization support is needed.

Furthermore, PDBs' tracking of portfolio emissions creates shared incentives with private-sector clients pursuing net-zero portfolios. These can be leveraged to work with private clients to identify financing solutions for hard-to-abate activities and other mitigation challenges.

Additionally, some PDBs are mandated by their parent governments (e.g., BNDES) or have made collective commitments (e.g., the EDFIs) to set overarching portfolio net-zero targets. While, as noted, targeted portfolio emissions reductions are not indicative of total mitigation impacts, they can incentivize PDBs' action on the low-emission transition and help to structure cooperation with other PDBs or government institutions that share the same goals.

However, PDBs that adopt net-zero portfolio benchmarks must implement them in a manner that avoids prioritizing financed emissions reductions over comprehensive support for low-emission climate-resilient development.

Overall, net-zero portfolio benchmarks are not useful for every PDB. Experts interviewed from the AFD, EBRD/EIB, and IDB said that their banks' well-established project-level approaches created significantly more room to select climate transformational options when following country LTSs and investing in transition finance. They also noted that strict financed

emissions targets could constrain PDBs' flexibility in supporting low-emission development by disincentivizing engagement with hard-to-abate sectors.¹³

The value of including net-zero portfolio benchmarks depends upon each PDB's operations and contextual external challenges. Each bank must determine which tools provide the best value for the resources required. The box below details the opportunities and challenges for PDBs using portfolio-level net-zero benchmarks.

Section 3 outlines the available tools, their relation to each approach, and how they can support the PDBs' key common goals.

Takeaway 2: Several PDBs have integrated net-zero portfolio benchmarks for different reasons.

Some have used the net-zero portfolio approach to manage impact and facilitate engagement with private-sector counterparts, while others see it as a way to pair long-term institutional strategy with national climate goals.

BII, BNDES, and the EDFIs all incorporate benchmarks from the net-zero portfolio approach in addition to project-level alignment assessments. However, each PDB has adopted different benchmarks for different reasons.

Interviewees from BII highlighted the benefits of a portfolio net-zero target and emissions tracking for its long-term strategic management of private-sector clients. BII's financing goes primarily to the private sector yet is also long-term given its development mandate (i.e., it generally does not divest). In this model, BII views portfolio emissions tracking as a tool for prioritizing clients, asset classes, and sectors for decarbonization support. BII is somewhat unique among PDBs in that it owns equity stakes in private enterprises, giving it greater authority over their transition planning.

Private asset manager Ninety One similarly uses a portfolio-level net-zero approach to forge long-term partnerships with clients for managed decarbonization. Like BII, the firm generally avoids divestment from high-emitting assets, instead using its emissions targets to incentivize and structure finance for emissions mitigation among its clients.

In contrast, BNDES has adopted a portfolio net-zero target to maintain long-term internal consistency, ensuring that the institution continues to progress toward a concrete decarbonization target even amid electoral turnover and other governance changes. Similar to BII, this target is not intended to inform short-term decisions regarding project origination but does guide BNDES's long-term management of counterparties, including requiring borrowers to submit transition plans and report emissions inventories.

Lastly, Proparco, as an EDFI member,¹⁴ has led efforts to explore the complementary use of portfolio-level net-zero benchmarks alongside the project-level alignment approach. In particular, this PDB has built a quantitative toolkit to estimate emissions impacts for projects with low information and established sector- and asset-specific emissions targets. Through this process, Proparco has identified hurdles for simultaneous navigation of the two approaches — namely that PDBs that commonly use financial intermediation structures or manage a high volume of short-term financing transactions face considerable data constraints when attempting to estimate emissions impacts.

¹³ Some of these PDBs do include pre-investment assessments of potential GHG impacts within their Paris alignment approach, but do not take inventories of portfolio emissions.

¹⁴ In 2020, the EDFIs made a collective commitment to reaching net zero portfolio emissions.

3. BENCHMARKING PARIS ALIGNMENT

Various operational benchmarks underpin the project-level and portfolio-level net-zero Paris alignment approaches and the methodological frameworks that guide their implementation.

Operational benchmarks are referential indicators and assessments that assist financial institutions in determining the contribution (or detracting) of their operations and financing activities to the goals of the Paris Agreement. PDBs use operational benchmarks to establish the Paris alignment of their operations (i.e., consistency of their activities with national low-emission climate-resilient development, as well as overarching temperature and adaptation objectives). As noted previously, this remit is particular to the expectations of PDBs under the Paris Agreement — correspondingly, they use operational benchmarks in a fundamentally different way than private financial institutions.

Operational benchmarks can be quantitative or qualitative in nature. They form a set of practical assessments that financial institutions integrate into decisions related to investment, portfolio management, technical assistance, strategic engagement priorities, and overall institutional governance.

3.1 SUMMARY OF OPERATIONAL BENCHMARKS

Summarized below are 11 common operational benchmarks used by both PDBs and the wider financial sector. These benchmarks vary across the reviewed approaches and methodological frameworks, as illustrated in PDB case studies (see the Annex). Choice of approach (project-level alignment or portfolio-level net-zero) generally dictates benchmark selection, though some are used across both approaches.

Some PDBs have also adopted benchmarks outside of those typically used under the project-level alignment approach, in order to provide strategic insight to guide PDB alignment approaches (see Section 2.4 for details). Table 3 describes the 11 common operational benchmarks and maps their use across alignment methodologies; project-level alignment is not listed as it is the foundation that these benchmarks would supplement.

Table 3. Summary of operational benchmarks

Benchmark	Description	MDB Building Blocks	IDFC Operationalization	GFANZ	SBTi
Portfolio (Absolute) Emissions Tracking	Provides a standardized, comparable metric to measure portfolio emissions over time and for alignment with a net-zero by 2050 emissions trajectory. Transparent portfolio emissions tracking enables comparison between an institution's portfolios and between institutions.			✓	✓
Project (Relative) Emissions Tracking	Focuses on the expected GHG emissions at an asset class, client, or company level. These expected emissions can then be assessed relative to a business-as-usual baseline to estimate the emissions that the project will help avoid through its operations.		✓	✓	✓
Absolute or Relative Emissions Targets ¹⁵	Often the basis of interim portfolio targets, these account for emissions in either absolute terms to measure the total GHG emissions over a set period or via carbon intensity metrics to measure the GHG emissions per unit of an activity or output, set relative to an economic or operational metric.			✓	✓
Shadow Carbon Pricing	Used to encourage low-emission investment and discourage high-emitting investment. Emissions associated with a project are subject to a time-escalating carbon price (USD/tCO ₂ e) to inform the cost-benefit analysis used for investment approval.			✓	✓
Inclusion Lists	Detail the types of projects/activities eligible for investment based on their consistency with low-emission climate-resilient development pathways. This benchmark is similar to a green taxonomy but also includes GHG-neutral activities and typically sector-specific sub-lists and technical eligibility criteria. As lists evolve, they could also include GHG-intensive activities that meet thresholds known to be aligned with the Paris Agreement.	✓	✓		
Exclusion Lists	Detail types of projects/activities not eligible for investment due to misalignment with Paris goals. Such lists often include upstream fossil fuel extraction and production, and electricity generation using fossil fuels.	✓	✓	✓	✓

15 There is ongoing debate over the efficacy and implementation of absolute and relative targets. The differences between the two, and how they can most effectively be used, is outlined in CPI's "[What makes a transition plan credible?](#)" report.

Benchmark	Description	MDB Building Blocks	IDFC Operationalization	GFANZ	SBTi
Scenario Modeling	Uses modeled sectoral and/or regional decarbonization scenarios for Paris alignment to help guide investment decisions and institutional focus. This is often conceptualized in terms of sector- or region-specific emissions trajectories resulting from differences in cost of abatement between sectors and regions. It can also include a forward-looking analysis of key investments needed to accelerate alignment within a sector or region.	✓	✓	✓	✓
Consistency with National Development Pathways	Evaluation of financing activities' alignment with low-emission climate-resilient national development pathways as described in NDCs, LTSs, and other documents published by national governments.	✓	✓		
Transition Risk Assessments	Evaluate the risks facing financing activities associated with the low-emission transition. These may take the form of lost revenue, rising expenses, exposure to local and international litigation, relations with international partners and markets, consumer and citizen demands, or other disruptions to commercial activity due to the climate transition. Transition risks vary across sectors and countries.	✓	✓	✓	✓
Physical Risk Assessments	Evaluate the risks facing financing activities due to the adverse physical impacts of climate change. Physical risks can result from climate change-linked natural phenomena, including sea-level rises, extreme temperatures, increased wildfires, etc. Physical risks vary across sectors and countries (and often even more granular geographic boundaries).	✓	✓	✓	✓
Counterparty Engagement Targets	Aim to ensure that PDBs require, and where possible support, clients to develop their own alignment strategies and implementation frameworks. For example, PDBs may require borrower companies to track and report their own emissions, create transition plans, and set an emissions reduction trajectory. Counterparty engagement can also include assistance to clients to assess transition and physical risks.	✓	✓	✓	✓

Takeaway 3: A strong program for stakeholder engagement is crucial.

External engagement is key to the success of both project-level and net-zero portfolio approaches. For the former, collaborating with government ministries, research institutions, and clients is essential to attaining the requisite knowledge to determine how projects align with low-emission climate-resilient development pathways, particularly in regions with complex economies and/or scarce data. Engagement can include the development of investment guides for national climate plans, identifying key knowledge gaps that can be addressed with technical assistance, or establishing project preparation facilities to ensure a pipeline of Paris-aligned projects.

In addition, interviewees from all case study institutions that have integrated portfolio-level net-zero approaches emphasized the importance of structured counterparty engagement in order to meet emissions targets. Especially in markets where emissions data is scarce and third-party services that estimate corporate emissions are less available, collaboration with counterparties to establish an emissions accounting and reporting scheme is necessary to ensure that PDBs' own net-zero targets are credible.

Extensive collaboration with clients on transition planning makes investment in hard-to-abate sectors more feasible. Ninety One, as a private investor, sees commercial opportunity in financing the decarbonization of high-emitting companies, working directly with them to implement corporate transition strategies through targeted financing.

3.2 COMPARING OPERATIONAL BENCHMARKS AGAINST CRITERIA FOR IMPACT

Using impactful and practical operational benchmarks can enable PDBs to implement alignment approaches that advance all of the Paris Agreement goals while also integrating with these banks' existing mandates and capacities.

Impacts refer in this context to how PDB operations support the Paris Agreement's implementation mechanism and coinciding environmental, economic, and social objectives. PDBs should use operational benchmarks that facilitate structured, continuous support for the objectives of Article 2.1 (temperature goals, adaptation and resilience capacity, and alignment of finance flows) while also considering differing national contexts.

Operational benchmarks can guide PDB alignment to optimize the impact of their financial and technical resources. Such benchmarks should ensure a "do no harm" principle to prevent the financing of activities that undermine the Paris Agreement. Where possible, benchmarks should also facilitate synergies between PDB climate finance activities and other internal and external initiatives (e.g., activities promoting sectoral and/or general economic development, just transition, and biodiversity) to drive long-term, systemic changes to the international finance architecture.

For PDBs that lend to public entities and engage with counterpart governments, a project-level alignment approach makes the best use of scarce financial, human, and technical resources. Adopting this approach requires consideration of the considerable variation in the technical demands of operational benchmarks and how they will fit within existing

operational structures. Some benchmarks have wide applicability across PDB mandates, geographies, sectors, counterparties, etc., while others are much narrower and/or require augmentation to apply to specific contexts.

The following criteria are intended to facilitate understanding of how each benchmark allows PDBs to assess their activities' impact towards (or against) Paris alignment, as well as key practical considerations for benchmark selection.

CRITERIA FOR IMPACT

Criterion 1: Improving PDBs' understanding of how their activities contribute to the Paris Agreement implementation mechanism and objectives.

The first step for PDBs developing a Paris alignment framework is to select benchmarks that promote a clear understanding of how their practices contribute to (or detract from) the low-emission climate-resilient development pathways, as well as any obligations to assist developing economies. These benchmarks should also help to determine meaningful progress toward the temperature and adaptation objectives of Article 2.1 through financing activities and other efforts.

Criterion 2: Incentivizing PDBs to maximize their positive impacts and minimize risks of investing in (or not divesting from) hard-to-abate sectors.

To achieve the Paris Agreement goals, PDBs should invest in projects that reduce dependence on GHG-intensive economic activities that lack decarbonization pathways and that maximize progress toward achieving a low-emission development pathway over the long term. At the same time, PDBs will need to invest in (or at least de-risk) the decarbonization of hard-to-abate sectors such as fossil fuel, steel, logistics, buildings, and cement, among others. Accordingly, operational benchmarks can incentivize PDB support for transition finance by identifying key opportunities for action and illuminating pertinent risks that must be addressed with PDB involvement.

Criterion 3: Applying "Do no harm" as a minimum condition.

The "Do no harm" principle states that "activities should neither hinder nor be counterproductive to the achievement of climate objectives and should be consistent with long-term national sustainable and low-GHG, climate-resilient development pathways" (Cochran et al., 2019). To achieve this, PDBs can use benchmarks such as inclusion and exclusion lists and assess consistency with national low-emission climate-resilient development pathways in order to safeguard against investments or activities that directly undermine efforts to implement the Paris Agreement and achieve its objectives.

Criterion 4: Maximizing synergies with other PDB objectives.

As state-owned financial institutions with mandates to support development and climate goals in their geographic areas of operation, PDBs have a unique role in supporting national governments in developing and implementing LTSs and promoting investments along those pathways. PDBs also have an opportunity to drive strategic resource allocation internally to maximize positive impacts across their operations.

CRITERIA FOR PRACTICALITY

Criterion 5: Ensuring efficient use of PDBs' scarce human and material resources.

Given that climate finance needs outstrip PDBs' available financial and human resources, PDBs must ensure that their resources are effectively prioritized and used to leverage other forms of capital, such as private investment and philanthropic funding. PDBs would need to identify their capacity limitations and potential solutions — i.e., hiring specialized services or expanding in-house analytical capacity — as well as opportunities to have the most transformative impact, given their internal constraints.

Criterion 6: Broad applicability across PDBs.

Climate change is a central consideration to achieving sustainable development — the broad mandate across all PDBs — because it profoundly influences economic stability, exacerbates inequalities, threatens food security, impacts water resources and health, and necessitates resilient infrastructure. Therefore, operational benchmarks that are widely applicable across PDBs, regardless of their mandate or geography, can ease the practical implementation of a PDB alignment approach by providing a straightforward indication of contributions towards low-emission climate-resilient development and support for Paris Agreement temperature and adaptation objectives.

3.3 OPERATIONAL BENCHMARKS: STRENGTHS AND WEAKNESSES

Each of the various operational benchmarks offers distinct strengths and weaknesses for PDBs seeking to implement a robust Paris alignment approach. While benchmarks can promote transparency, accountability, and the creation of measurable guidelines, their implementation can stretch technical capacity and resources — particularly of public sector clients and medium-sized businesses — if they are not selected in a balanced and strategic manner.

PDBs should select benchmarks that align with their mandates, ensuring relevance and effectiveness. They can also collaborate with more experienced PDBs to gain insights on overcoming challenges, optimizing resource allocation, and enhancing the overall success of their alignment approach. Careful navigation of the selection and implementation process can enable PDBs to balance the need for diverse benchmarks and the operational constraints associated with their adoption.

Strengths and weaknesses of the 11 common operational benchmarks are outlined in Table 4.

Table 4. Operational benchmarks: Strengths and weaknesses

Benchmarks	Strengths (and criterion)	Weaknesses
Portfolio (Absolute) Emissions Tracking	<p>Can be leveraged strategically to identify areas of PDB portfolios where support for real economy progress on the 1.5°C goal is most needed (C1).</p> <p>Creates a shared incentive with private-sector clients, which can facilitate support for transition activities (C2).</p>	<p>If overemphasized, can incentivize pursuit of financed emissions reductions over strategic support for low-emission climate-resilient development.</p> <p>Does not consider the impact of assets after leaving PDB management, limiting insight into real economy emissions reduction.</p> <p>Financed emissions are not a fit-for-purpose indicator for Paris alignment, as they do not capture indirect mitigation effects.</p>
Project (Relative) Emissions Tracking	<p>Prioritizes financing of projects with low emissions (C1).</p> <p>Can be applied to projects that vary by asset type and data availability (C6).</p>	<p>Limited insight into broader synergies with institution-level or economy-wide net-zero goals.</p> <p>Project emissions measurement relative to a counterfactual (i.e., consequential emissions) can be a technical challenge.</p> <p>Resource-intensive, particularly for development projects where the scope of direct and indirect emissions is broad.</p>
Absolute or Relative Emissions Targets	<p>In the long term, it can provide ambitious, high-level direction and set pace of progress, ensuring consistency across institutions with similar goals (C6).</p> <p>With a clearly defined baseline, both approaches provide measurable guidelines and clear alignment with the 1.5°C goal (C1 & C2).</p>	<p>Setting emissions targets relies on data availability, data integrity, and adequate monitoring mechanisms, which may be unavailable in many developing countries.</p> <p>Emissions targets may draw attention away from more pressing climate concerns in some contexts; evolving economic conditions or technologies may render initial targets impractical over time.</p>
Shadow Carbon Pricing	<p>Prioritizes financing of projects with low emissions (C1).</p> <p>Can be used to align with national objectives if they are set around national carbon pricing schemes (C4).</p>	<p>Priority financing of low-emission projects does not necessarily ensure absolute reductions or advancement of decarbonization pathways.</p> <p>Technically demanding, requiring major revision to PDB cost-benefit analysis.</p> <p>Shadow carbon prices may be a tool for project design but cannot help to ensure consistency with Paris Agreement goals.</p>
Inclusion Lists	<p>Screens PDB financing to ensure flows are only directed towards aligned activities (C1 & C3).</p> <p>Straightforward to implement, low technical needs (C5).</p>	<p>Not inclusive of not all PDB activities; not applicable in all cases.</p> <p>Do not indicate synergies with other PDB priorities.</p> <p>Do not provide insight into which activities are most impactful.</p>
Exclusion Lists	<p>Precludes activities inconsistent with Paris goals (C3).</p> <p>Straightforward to implement, low technical needs (C5).</p>	<p>Do not provide insight into which activities are most important to low-emissions climate-resilient development.</p> <p>Often limited to energy sector activities.</p>
Scenario Modeling	<p>Guides sectoral targeting of PDB investment (C1).</p> <p>If modeling is robust, can be used to identify opportunities to support technology adoption and other key leverage points for transition (C2).</p>	<p>Robust scenario modeling is technically intensive, especially when it includes emissions trajectories, and always requires substantial data collection.</p>

Benchmarks	Strengths (and criterion)	Weaknesses
Consistency with National Development Pathways	<p>Ensures that PDB financing delivers economic co-benefits and advances strategic development objectives (C2 & C4).</p> <p>Precludes activities inconsistent with Paris goals (C3).</p> <p>May lead to further support (project preparation, financing, policy, etc.) from national governments and stakeholders (C2).</p>	<p>Analysis of development pathways will require additional technical work and extensive engagement with policymaking bodies.</p> <p>In some cases, a “last mile” problem may exist where national development pathways have been established, but a pipeline of investable projects is not yet available.</p>
Transition Risk Assessments	<p>Guide PDBs towards national low-emission climate-resilient development pathways (C1).</p> <p>Reduce exposure to stranded asset risk and provides impetus for clients to plan for transition (C3).</p>	<p>Insufficient to protect PDB assets alone must be coupled with physical risk assessment for comprehensive Paris alignment.</p> <p>Transition contexts vary by region, investment type, and sector, thus requiring rigorous and contextual technical assessments.</p>
Physical Risk Assessments	<p>Mainstream consideration of Adaptation & Resilience into PDB financing activities (C1).</p> <p>Reduces PDB exposure to physical climate risk (C3).</p>	<p>Must be combined with transition risk assessment during implementation for comprehensive Paris alignment.</p> <p>Requires granular modeling of climate scenarios and robust climate risk data, which may be unavailable in some sectors and regions.</p>
Counterparty Engagement Targets	<p>Can amplify the impact of PDB activities by galvanizing clients to pursue transition strategies and strengthen project pipelines (C2).</p>	<p>May not ensure synergies with broader PDB priorities.</p> <p>May require a tiered approach, with one-size-fits-all solutions risking the exclusion of smaller and less advanced but key developing country stakeholders .</p>

Takeaway 4: PDBs that are active across multiple geographies and sectors require wider benchmarks and data to contextualize alignment assessments.

The types of projects and activities that are consistent with low-emission climate-resilient development pathways vary considerably by country. PDBs with multinational operations must define such pathways across numerous contexts. That is to say, projects and activities supported by PDBs may be aligned with low-emission climate-resilient development in one context but not in others.

Accordingly, PDBs that operate across wide geographies and sectors (e.g., the EBRD, IDB, BII, and AFD/Proparco) employ wide sets of benchmarks beyond inclusion and exclusion lists in order to ensure Paris alignment. In particular, these PDBs will often reference scenario models that provide detail on the technological and economic landscapes, as well as key leverage points for supporting mitigation and adaptation efforts specific to each context.

Relatedly, data availability is commonly cited by these PDBs as a key challenge for assessing alignment. For example, robust sectoral modeling and/or detailed documentation of low-emission climate-resilient development pathways may be unavailable in some geographies, as are the data inputs needed to conduct transition and physical risk assessments.

To confront this barrier, PDBs that operate over multiple geographies may need to form long-term partnerships with other PDBs and national governments in order to address informational gaps. Over time, these collaborations can produce a knowledge base that better facilitates context-specific assessment of alignment.

4. CONCLUSIONS AND RECOMMENDATIONS

The following conclusions and recommendations are drawn from our analysis of alignment approaches and their constituent operational benchmarks, as well as the key takeaways from the PDB case studies. They aim to provide PDBs with practical suggestions for developing and improving their alignment approach at various stages of implementation.

Conclusion 1: Project-level alignment forms the foundation of PDB support for Paris Agreement goals.

Project-level alignment assessments ensure that PDBs' financing activities and other project-support operations contribute to (or, at a minimum, do not actively detract from) Paris Agreement objectives.

RECOMMENDATIONS:

- a. PDBs that have not yet adopted a comprehensive alignment approach should start by outlining a project-level alignment approach to ensure that future projects support the national low-emission climate-resilient development pathways of the countries in which they operate.
- b. Assessments of project-level alignment should use operational benchmarks that are as context-specific as possible, ideally incorporating context-specific aspects such as national development priorities, sectoral transition pathways, and transition and physical risks.
- c. In countries where national low-emission climate-resilient development pathways are yet to be established or lack detail, PDBs can engage national governments to develop LTSs and scenarios, along with corresponding financing plans, thereby connecting the project-level approach with the whole-of-institution approach.

Conclusion 2: Integrating operational tools from the portfolio-level approach can provide strategic benefits for banks that work closely with the private sector or operate in tandem with other governmental agencies on mitigation.

Some PDBs in our case studies have found high-level tracking of portfolio emissions by sector and asset class against benchmarks for low-emission development to be helpful in identifying areas where further financing support for decarbonization is needed. Additionally, emissions tracking can create a shared incentive with private-sector clients to collaborate on financing solutions for mitigation challenges. A long-term portfolio net-zero target may help to maintain long-term ambition and facilitate strategic coordination with other government institutions and relevant stakeholders.

However, it is crucial that PDBs do not allow consideration of financed emissions to undermine their overarching sustainable development goals and climate resilience. Banks

with a well-developed and ambitious Paris alignment approach, focused on maximizing indirect outcomes that build a resilient system, may find that emissions tracking discourages their transition investments that have the highest potential to reduce real economy emissions.

RECOMMENDATIONS

- a. PDBs that work frequently with private-sector clients should assess whether many of these clients have set transition planning and emissions targets (if relevant in the context of their operations).
- b. PDBs in markets where transition planning and emissions targets are common – or may soon become so due to new regulations, industry standards, or institutional peer pressure – should consider integrating tools from the net-zero portfolio approach to facilitate productive engagement with the transition approaches of private-sector clients and partners.
- c. PDBs that incorporate a portfolio-level net-zero approach must follow best practices for setting interim emissions targets, maintaining reporting and verification, and engaging with counterparties on emissions reduction. These practices should be communicated to clients and replicated by them where feasible.
- d. PDBs that have an advanced Paris alignment approach focused on providing transition finance and transformative impacts, as well as activities aimed at supporting the systemic and structural changes needed for a low-emission transition, may find that the net-zero approach contradicts their climate policies and even their development mandates, as limiting portfolio emissions would also limit their investment in transition activities.

Conclusion 3: Paris alignment is an evolving and ongoing process that requires consistent board and senior management support.

Institution-wide adoption of a Paris alignment approach requires major changes to PDB processes (e.g., for project origination, due diligence, and financing), and needs support from bank governance bodies. Moreover, PDB Paris alignment approaches will need to be revised and updated to improve the effectiveness of implementation and in response to emerging climate challenges.

RECOMMENDATIONS

- a. PDB governance bodies need to fully engage in the planning and operationalization of a Paris alignment approach to ensure that it is properly implemented and clearly understood across all sub-departments and processes. This underscores the importance of board and senior management ownership of the process.
- b. Furthermore, PDB governance bodies, leadership, and internal operations teams should formally review their Paris alignment approaches on a regular basis to identify any possible gaps and revise benchmarks against any changes to low-emission climate-resilient development pathways and the latest science-based targets.

Conclusion 4: Stakeholder engagement is key to developing and implementing a Paris alignment approach.

Both project-level and net-zero portfolio alignment approaches are most successfully developed and implemented with continuous long-term engagement with clients and other external stakeholders. This can include shareholder engagement, transition planning, data sharing, mandated reporting and verification, technical support, as well as other activities that reduce knowledge gaps and informational asymmetries.

RECOMMENDATIONS

- a. As PDBs develop alignment approaches, they should encourage clients and other external stakeholders to align their internal operations and client relations with suitable alignment approaches.
- b. Where financing activities fail to achieve the desired objectives of aligning clients' goals with Paris alignment, PDBs should continue to engage with clients and other external stakeholders, especially their boards and shareholders. This is particularly important for PDBs that work with corporate clients, to track progress towards corporate transition goals.
- c. PDBs should also engage with each other through networks such as Finance in Common, which facilitate the sharing of best practices for the development and implementation of alignment approaches.

Conclusion 5: Further research can seek to identify which investments and support activities deliver systemic or transformative impacts.

With aligning their activities with the Paris Agreement is a necessary minimum standard, PDBs should also seek to optimize their investments and other supportive measures to deliver systemic and transformative impacts, as called for by the MDBs' Building Blocks approach. A potential starting point would be to assess, among the spectrum of projects and financing activities that align with low-emission climate-resilient development, which have the greatest potential to catalyze large-scale mitigation and adaptation efforts while also driving economic development. Essentially, this would constitute a second "layer" of pre-investment assessment for potential impacts, following an initial assessment of alignment.

RECOMMENDATIONS

- a. PDBs that have already implemented a comprehensive alignment approach can seek to develop methods and operational benchmarks to assess impacts. These can go beyond the direct mitigation or adaptation benefits generated by projects to assess the potential for systematic or transformative outcomes that support the large-scale changes needed to transition to low-emission economies.
- b. Similar to alignment, impact assessment will require context-specific information that accounts for differences in national low-emission climate-resilient development pathways.

5. ANNEX: CASE STUDIES

5.1 EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The European Bank for Reconstruction and Development (EBRD) is a multi-regional MDB that had nearly USD 7 billion in climate finance commitments in 2022 (EBRD, 2021). In 2021, the EBRD committed to aligning all of its activities with Paris goals and fully implemented this commitment in 2022. It has also committed to doubling its mobilization of private climate finance by 2025 (ibid).

The EBRD's Paris alignment is based on a project-level approach using the Joint MDB Methodologies and Six Building Blocks (EBRD 2022). The EBRD methodology notes that its approach is anchored in Article 2.1c of the Paris Agreement, stating that making "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" will also further the mitigation and adaptation goals of Articles 2.1a and 2.1b.

Consistent with the Joint MDB Methodologies, the EBRD alignment methodology uses separate guidelines to evaluate mitigation and adaptation aspects of projects before combining these into a final determination of "aligned" or "not aligned."¹⁶ The bank assesses a comprehensive set of operational benchmarks to test alignment, with criteria ranging from general context to specific project-level characteristics (see list of benchmarks in Table 3). Its methodology also details an extensive process for evaluating indirect financing activities — requiring iterative collection of substantial counterparty data — to ensure that the operations of financial intermediaries are also aligned.

Implementation of its alignment methodology has significantly changed the way the EBRD assesses and structures projects. It has mainstreamed the application of the methodology throughout all of the bank's day-to-day operations and approval processes. This has required a near-complete overhaul of internal operating models over a multi-year timeframe and has required considerable institutional resources to develop the necessary technical capacity.¹⁷

The EBRD approach provides a rigorous assessment of alignment through the structured use of operational benchmarks across a wide range of financing cases. While smaller PDBs may be unable to replicate every aspect of this approach due to limited technical resources, the EBRD methodology is a useful reference as they develop their own approaches, providing a roadmap of assessment tools and a coherent framework for determining alignment.

¹⁶ Projects must meet both mitigation and adaptation criteria to earn an "aligned" classification.

¹⁷ Per interviews with EBRD. The foundations of the EBRD alignment methodology precede its formal commitment to align all operations by 2022, dating to at least the 2016 joint MDB Paris alignment commitment.

Operational benchmarks used by the EBRD:

Project emissions tracking, shadow carbon pricing, inclusion lists, exclusion lists, scenario modeling, consistency with national development pathways, transition risk assessments, physical risk assessments, and counterparty engagement targets.

5.2 BRITISH INTERNATIONAL INVESTMENT

British International Investment (BII, formerly CDC Group) is the UK government's development finance institution. It operates across Africa, Asia, and the Caribbean to provide flexible capital (direct and intermediated equity) to support private-sector growth and innovation. BII is an important partner to EMDEs seeking to meet Paris Agreement goals, with expertise in stimulating private-sector activity within climate sectors. BII released its institutional climate change strategy in 2020 and in 2021 committed to allocating 30% of annual commitments to climate-related projects and businesses (BII 2020).

BII's climate strategy comprises three core "building blocks": (1) **Net zero by 2050**, (2) **Just Transition**, and (3) **Adaptation & Resilience**. These establish high-level objectives that guide BII's climate change strategy, which are then integrated into its institutional governance and investment approval process. Notably, the "net zero by 2050" building block requires an assessment of potential investments' financed emissions and their strategic contributions to Paris goals, thus incorporating principles of both the net-zero portfolio and project-based approaches.

Through these building blocks and its overall climate change strategy, BII aims to support EMDEs' low-emission transition and ensure that this creates jobs and mitigates climate risks. These impacts are mapped by BII at the sector level, and consideration is also given to social vectors (e.g., gender), that may affect the distribution of climate investment benefits. BII's private-sector focus and network advance understanding of these aspects within the broader commercial ecosystem.

BII mainly invests in overseas private enterprises across various economic and climate contexts. A key barrier is the collection of data to assess the emissions reduction potential and Paris alignment of its investments and sectors relative to the variation in net-zero pathways across geographies.¹⁸ Another challenge is the context-dependent nature of adaptation and resilience value of invested projects, making it difficult to develop a universal taxonomy to guide finance to this end.

While such challenges are still being addressed, the ambition and comprehensiveness of BII's climate finance strategy stand out among approaches to Paris alignment. BII has also taken steps to develop and implement robust procedures for mainstreaming just transition as well as adaptation and resilience goals into its financing operations, which is fairly rare across PDBs. In particular, during the investment decision process, BII conducts due diligence to assess physical risks from adverse climate effects and how the investment contributes towards increasing resilience while also evaluating whether climate benefits support broader economic development priorities and community welfare.

¹⁸ See the [BII Guide to Transition Finance in Africa](#) for discussion on sectors and project types that are commonly excluded from climate finance taxonomies, but nevertheless are critical to the transition.

Operational benchmarks used by BII

Portfolio emissions tracking, project emissions tracking, absolute emissions targets, inclusion lists, exclusion lists, scenario modeling, consistency with national development pathways, transition risk assessments, and physical risk assessments.

5.3 THE DEVELOPMENT BANK OF BRAZIL

Banco Nacional de Desenvolvimento Econômico e Social (BNDES) — or the Development Bank of Brazil — is one of the world’s largest NDBs and plays an integral role in Brazil’s economic development as a provider of long-term financing. BNDES is critical to achieving Brazil’s goal of reaching net-zero emissions by 2050, as well as interim NDC targets of a 50% reduction in emissions by 2030 and ending illegal deforestation by 2028.

In 2022, BNDES released its Just Neutrality Strategy, outlining its approach to meeting these goals, as well as aligning bank operations with the broader Paris agenda (BNDES 2022). Within the Just Neutrality Strategy, BNDES commits to:

- i. Reaching carbon neutrality across Scopes 1, 2, and 3 emissions by 2050,
- ii. Neutralizing emissions from scopes 1, 2, and work-related travel by 2025,
- iii. Completing an inventory of Scope 3 financed emissions for direct investments by 2023,
- iv. Defining neutrality targets for direct, indirect, and variable income portfolios,
- v. Defining engagement goals to accelerate the transition of counterparties, and
- vi. Incorporating carbon accounting into the approval processes of new projects.

These commitments are implemented through BNDES’s Sustainable Taxonomy, which provides a framework to identify project-level contributions towards achieving Brazil’s NDC are recorded and reported (BNDES 2021). BNDES has also set sector-specific targets for green investment while tracking other climate indicators (including emissions avoided, reforestation, etc.).

BNDES uses a hybrid of the portfolio-level net-zero and project-level alignment approaches as the bank aims to reduce portfolio emissions and limit projects that risk contradicting the Paris mitigation objective (thereby excluding financing of thermal coal mining and energy plants that exclusively use oil-derived fuels, for example) while also deploying tools to incentivize investments in projects that are critical to shifting Brazil’s economic trajectory towards decarbonization. In line with the project-level alignment approach, the strategy has potential impact beyond BNDES’s direct lending operations, as it aims to hasten the decarbonization of high-emitting bank counterparties. Moreover, its Sustainable Taxonomy has been selected as a contributing template for an economy-wide taxonomy in Brazil. It may, however, be challenging to assess projects that do not fall in either category.

Nevertheless, BNDES’s implementation of its Just Neutrality Strategy faces some barriers. For instance, achieving long-term goals such as carbon neutrality by 2050 may be threatened

by any future changes in national government and climate priorities. Similarly, phasing out fossil fuel finance requires long-term stakeholder arrangements, as well as the management of any short-term conflicts with the bank's economic development mandate. Even more importantly, given Brazil's NDC commitment to eliminate illegal deforestation by 2028, BNDES faces structural challenges to implement mechanisms that provide sound traceability for the use of finance in contexts such as agriculture (Federative Republic of Brazil, 2022).

BNDES's blending of portfolio-level net-zero and project-level alignment approaches offers some solutions to these pitfalls. The bank is strengthening its project approval procedures to account for CO₂ emissions and screen out borrowers associated with illegal deforestation, and easing procedures for projects that are aligned with the Paris Agreement mitigation goals. In the near term, a sustainable taxonomy can be used as a roadmap toward the eventual achievement of a net-zero approach's objectives. Orienting current bank financing activity towards the projects and sectors identified by a Sustainable Taxonomy and a Paris alignment strategy will inevitably push down financed emissions and provide a pathway toward the long-term goal of carbon neutrality. Finally, BNDES has complemented this strategy with extensive counterparty engagement, both requiring emissions reporting and aiding clients with developing their own decarbonization plans and emissions accounting systems. This is particularly crucial in the fossil fuel sector, where BNDES has significant investments, as these initial steps lay the groundwork for future collaboration with the bank on managed phaseout of emission-intensive activities.

Operational benchmarks used by BNDES

Portfolio emissions tracking, project emissions tracking, absolute emissions targets, inclusion list (green taxonomy), exclusion list, and counterparty engagement targets.

5.4 AGENCE FRANÇAISE DE DÉVELOPPEMENT & PROPARCO

Agence Française de Développement (AFD) is the world's oldest development agency. AFD Group, which includes its private-sector financing subsidiary, Proparco, and a new technical assistance arm, Expertise France, provided EUR 12.15 billion in development finance in 2012, largely through loans.

AFD was one of the first donors to mainstream climate considerations in its activities. With the French Government's publication of its national Climate Plan in 2017, AFD was the first development agency given an official mandate to implement the Paris Agreement. AFD also committed to helping its counterparts (the first group of which is its partner countries) implement their contributions. AFD's 2017-2022 climate strategy, still applied today, is built around commitments to:

1. **Ensure 100% Paris Agreement-compatible activity:** This commitment marked a fundamental change in AFD's financing decision-making criteria, shifting from assessing

a project's (positive or negative) impact on climate to applying a selectivity matrix to the characterization of the consistency of all interventions with low-GHG emissions, climate-resilient pathways.

2. **Increase volumes of climate finance**, based on a climate finance target of 50% climate co-benefits, with differentiated geographical targets.
3. **Contribute to redirecting financial flows and investments towards climate.**
4. **Participate in international debates on climate finance** and the role of development banks and investors in better mainstreaming climate change issues in their activities.

In addition, AFD's upcoming new climate strategy will consider the necessary convergence with biodiversity and nature-related topics.

AFD's commitments have been reflected in its mandate and streamlined into its operations, based on an in-house methodological framework, with the addition of two specific modalities to AFD's previously existing procedures:

5. **The systematic analysis of countries' low-emission climate-resilient pathways and their consideration in the development of country intervention strategies,**¹⁹ with more in-depth analyses and support provided to countries that are most in need through the dedicated 2050 facility.
6. **The systematic analysis of the alignment of projects with country-level low-emission and climate-resilient pathways** and the integration of these results in AFD's sustainable development analysis framework.²⁰ This framework takes a two-pronged approach, based on (i) a sustainable development analysis performed by AFD's operational teams in charge of appraising a project to estimate the anticipated impacts ex-ante and (ii) a sustainable development opinion delivered by the Strategy Department, independently of the Operations Department and informing financing approval.

These tools are used along with sectoral guidelines and exclusions lists to guide investment decisions. For instance, AFD's 2018-2022 energy transition strategy highlighted the agency's decision to exclude coal and gas from its operations (validated by its Board of Directors in March 2013).

¹⁹ AFD uses internal country strategy documents to help operational teams prioritize projects.

²⁰ AFD-financed projects are subject to sustainable development analysis and opinion, except for those whose direct effects cannot be qualified (e.g., general budget support, study funds, and guarantees).

Proparco

Proparco has committed to align all of its activities with the Paris Agreement and has been assessing the risk of misalignment of direct operations since 2018. It applies the same approach as AFD, with some specificity mainly due to the nature of its counterparties (private and mostly financial intermediaries).

As an EDFI member, Proparco is subject to commitments made in 2020 to "align all new financing with the objectives of the Paris Agreement by 2022 and transition investment portfolios to net-zero GHG emissions by 2050 at the latest".²¹

AFD, through Proparco, is considering the progressive adoption of portfolio alignment elements in its procedures to better track its emissions and include more quantitative elements in its decision-making processes. Proparco started measuring its portfolio emissions in 2023 and is following the principles adopted at the EDFI level, namely implementation of the "Global Standard" by the Partnership for Carbon Accounting Financials and the Joint Impact Model tool to estimate GHG emissions when little project-specific information is available. As a next step, Proparco will conduct an analysis to identify the highest-emitting sectors and assets before seeking to define portfolio targets.

Proparco, along with other EDFI members, is more broadly engaged in discussions on using portfolio approaches to complement the principles and activities of its project-level alignment approach. Proparco's portfolio mainly consists of financial intermediaries (EUR 855 million in engagements in 2021). Following in AFD's footsteps, Proparco began assessing the alignment of its non-earmarked intermediated finance (financial institutions and funds) in 2021 and will progressively systematize this in its procedures.

In addition to its commitment to minimally align all of its activities with Paris Agreement objectives, AFD's approach includes a focus on activities that have the most impact on transition dynamics, which the group identifies as:

- Public policy loans, and public policy dialogue and support for countries' development of their low-GHG emissions and climate-resilient long-term development strategies,
- Projects with spill-over effects (particularly at the technological, normative, and behavioral level),
- Projects with leverage effects (particularly on the mobilization of finance and/or engagement of the private sector),
- Innovative and diversified financial instruments to maximize impacts, among others.

In October 2022, AFD released a position paper to frame its approach to support the alignment of its partner financial institutions in order to maximize the impact of its activities on the broader systems in which it operates. In addition to carrying out its systematic project-level assessments, AFD pledged to more systematically assess and support the Paris alignment of its counterparties, working with them on their overall climate strategies, policies, risk assessments, and business models. AFD's assessment of the alignment of its financial counterparties is structured around three core principles:

²¹ As stated in the EDFI's joint commitment made in 2020.

- **Performance-based:** to estimate the institution's impact on mitigation
- **Forward-looking:** to assess (based on a questionnaire) how the financial institution will achieve emissions and climate-resilience targets²²
- **Context-specific:** to consider the results of the assessment in light of the specificities of each financial intermediary (mandate, type, size, capacity, country context, etc.)

Based on the results of its counterparty assessment, AFD adapts its requirements and associated support to the financial intermediary.

AFD is more broadly engaging with governments, ministries, and other country-level policymakers to support the alignment of national systems. For instance, AFD's operational teams are progressively engaging with ministries of finance, central banks, and regulators to support the development of a conducive regulatory framework and the alignment of the financial system as a whole. A dedicated framework was also developed to assess public policy loans, including questions on the consistency of supported measures with low-emission climate-resilient development pathways and their effectiveness in terms of political economy.

In practice, AFD's achievements are measured through a range of indicators: in addition to the monitoring of the aggregated absolute (and relative) emissions (as well as the specific mitigation contribution, i.e., avoided emissions) of its annual approvals (Scopes 1, 2 and 3), AFD tracks its ratio of fossil to non-fossil energy finance (in euros invested). In 2022, for every EUR 53 invested overall, EUR 1 was invested in fossil fuels. AFD also recently calculated the exposure of its portfolio to fossil fuels.²³

AFD faces similar barriers as other PDBs, linked to the nature (development mandate) and the geography of its operations (developing countries). Lack of available data, reliable pathways, and applicable standards are among the main gaps that can hinder the effectiveness of AFD's alignment approach.

Operational benchmarks used by AFD

Project emissions tracking, exclusion lists, scenario modeling, consistency with national development pathways, transition risk assessments, physical risk assessments, and counterparty engagement targets.

²² The questionnaire is structured around the five Mainstreaming principles and on the Task Force on Climate Disclosure (TCFD) on Transition Plans

²³ Today, AFD estimates that less than 1% of its balance sheet is exposed to fossil fuels (including direct and indirect exposure, i.e., through clients such as energy utilities).

5.5 NINETY ONE

Ninety One is a global asset manager established in 1991 in South Africa. With USD 150 billion in assets under management, Ninety One offers active strategies across equities, fixed income, multi-asset, and alternatives to institutions, advisors, and individual investors around the world. The firm has been extensively involved in emissions target setting and implementation for itself, its clients, and its network of asset managers through its contribution to frameworks published by networks such as the Institutional Investors Group on Climate Change.

Ninety One has applied these frameworks for target setting by emphasizing reductions in real economy emissions and investing in a low-emission transition, particularly in emerging markets. Ninety One's investment thesis focuses on industries and infrastructure that are supporting the energy transition, as well as targeting high-emitting sectors that may require substantial financing to implement climate strategies. This approach is aligned not only with Article 2.1a of the Paris Agreement but also 2.1c, emphasizing that finance flows must be consistent with a pathway towards low-emission climate-resilient development.

Ninety One has based its targets on the Science-Based Targets initiative methodology and aims to have 50% of corporate-financed emissions covered by net-zero targets by 2030 (NZAMI, 2022). Its strategy involves active engagement with high-emitting companies to drive real-economy change. According to Ninety One, actively engaging high emitters encourages the adoption of targets and plans for decarbonization while also using voting power to drive change.

In order to provide credible transition finance, Ninety One has developed a Transition Categorization framework with the Sustainable Markets Initiative to categorize investments into buckets, ranging from companies that are aiming to transition to those already providing solutions and enablers for transition. This approach aims to facilitate effective and purposeful transition investment within general portfolios or specific vehicles that fund pathways to net zero in critical sectors, such as Ninety One's Emerging Markets Transition Debt strategy (Sustainable Markets Initiative, 2023).

Ninety One prioritizes real-world impact by supporting the transition to net zero with divestment as a last resort rather than by using portfolio-level emissions reduction metrics. This contrasts with the emissions reduction focus of many asset managers. Ninety One states that it intends to "do more than reduce carbon by simply constructing portfolios that exclude high-emitting countries and companies," given that applying an exclusionary process to achieve net zero could concentrate portfolios in developed markets and asset-light industries and could "end up with places and sectors abandoned to their own devices" (Ninety One, 2023).

Ninety One does not currently include sovereigns in its portfolio coverage targets, recognizing the challenge of setting absolute portfolio alignment targets for sovereigns due to the size of this investment universe and constraints associated with clients' investments in sovereigns. However, Ninety One contends that it is possible to contribute to the net-zero transition through approaches to sovereign investment and increasing the alignment of sovereign investment portfolios to the goals of the Paris Agreement using tools like the Ninety One Net Zero Sovereign Index.

Operational Benchmarks used by Ninety One

Portfolio emissions tracking, project emissions tracking (at the asset/company level, given that investment is not generally in projects), scenario modeling (for some funds in line with regulatory compliance), transition risk assessments, and portfolio coverage of science-based pathways (companies targets and plans and counterparty engagement targets).

5.6 INTER-AMERICAN DEVELOPMENT BANK

Founded in 1959, the Inter-American Development Bank (IDB) is the largest source of development finance in Latin America and the Caribbean. IDB focuses on public operations, and is part of the IDB Group with IDB Invest, focused on the private sector, and IDB Lab, which concentrates on innovative ventures and ecosystems.

Building on existing commitments, such as those in its Climate Change Action Plan (2021-2025) and the target of 30% climate finance in IDB Group operations, the IDB Group joined other MDBs in the development and application of the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations. IDB Group started to assess and ensure the alignment of all new operations with the new methodology on 1 January 2023, consolidating the methodology's application with the IDB Group Paris Alignment Implementation Approach: Principles, Methodology and Technical Guidance (PAIA), which included a set of principles and sector-specific technical guidance²⁴ for designing operations and for dialogue with clients.

This case study focuses exclusively on IDB's public sector operations.²⁵

INTERNAL COMMUNICATION AND CAPACITY BUILDING

Appropriate communication across all levels has been crucial to generating buy-in and ensuring clarity in the interpretation of the methodology and its consistent application. This requires engagement with targeted specialists across key sectors (energy, transportation, agriculture, etc.) and management. Awareness has been raised through operational support and courses for all operational staff, seeking to bring the entire bank to the same minimum levels of understanding and to clarify key differences and synergies between concepts such as "Paris alignment" and green and climate finance.

The elaboration of PAIA required consensus building across public and private arms of the bank, triggering conversations on how enablers and constraints for Paris Alignment diverge and converge across the IDB Group. The engagement of climate and sector specialists in all three arms of the bank and across country offices in the development of the guidance has led to a broader conversation on how best to incorporate market conditions, technologies, and trends into strategic sensitivity, engagement with national development pathways and counterparty engagements, prioritizing a country-specific approach to understanding levers of change. While complemented by two dialogues with civil society, the achieved coherence

²⁴ As of March 2024, IDB Group has published sectoral technical guidance for water and sanitation, agri-food systems, transportation, energy, buildings, ICT for the digital economy, manufacturing, and operations with financial intermediaries.

²⁵ Paris Agreement alignment is a commitment of the IDB Group as a whole, therefore some references might be made to the other two arms of the group, IDB Invest and IDB Lab.

across the bank has also provided broader insights for improving multisectoral work with clients, such as for engaging different ministries and agencies around projects with more systemic development impacts.

PROCEDURES AND GOVERNANCE

The organization-wide understanding of Paris alignment, coupled with the implementation of climate considerations at earlier stages of the programming cycle, has proved important in proactively tackling challenges for PA alignment. The inclusion of preliminary assessments on Paris alignment in concept notes between country representatives and clients has allowed the bank to flag risks and define the level of effort and the depth of Paris Agreement alignment assessments for individual operations.

The process is designed to help the Bank identify IDB operations whose contexts and sectors require doubling down on helping clients adapt and decarbonize. With new projects, the goal is to engage climate specialists with in-country project originators in a timely manner, identifying Paris alignment opportunities before further financial commitments. In the case of continuing projects and repeated operations with less space for structural changes, adjustments are prioritized through engagement that informs recommendations and red lines for later in the process.

Another important issue when working with the public sector is the setting of operational boundaries. While safeguards are mostly concerned with the terms of the loan, Paris alignment has a spatially broader and longer-term scope, which should inform the application of transitional finance.

METHODOLOGY AND DATA

IDB has made efforts to streamline operational benchmarks, increasingly relying on technology to keep abreast of important developments.

For mitigation, the main issue for IDB has been the lack of regionalized data, both at country and sector levels. NDCs are in the process of being updated, and in the absence of LTSs in most countries in the region, there is little clarity on countries' decarbonization pathways for specific sectors. While databases such as that of the International Energy Agency are helpful, they do not provide sufficient granularity to assess individual projects against specific contexts. Other databases may suffer from a lack of consensus on their reliability. As a solution, the IDB is assessing, collecting, and developing necessary data, which should support its project-level assessments and support dialogue with individual countries.²⁶

In terms of adaptation, the IDB has a methodology for assessing projects in relation to climate-related physical risks. The Paris alignment methodology has served to complement this with the review of adaptation solutions that are coherent with national priorities and implementation policies. Going forward, IDB will need better clarity on upstream

²⁶ Examples of recent relevant IDB publications are: *Achieving Net-Zero Prosperity: How Governments Can Unlock 15 Essential Transformations* (<http://dx.doi.org/10.18235/0004364>), and *The Benefits and Costs of Reaching Net Zero Emissions in Latin America and the Caribbean* (<http://dx.doi.org/10.18235/0005330>).

maladaptation challenges, including examples and benchmarks for early identification, as well as better parameters to assess and address residual risks.²⁷

An overall need shared by IDB's efforts to advance Paris alignment and climate finance is improving countries' capacities to effectively monitor, report, and verify their climate impact. This is an area of focus of the IDB Climate Linked Incentive Mechanism for Ambition (IDB CLIMA) Pilot Program, launched in 2023. This innovative results-based approach rewards borrowers that invest in the needed capacities to define investment pipelines and ambitious key performance indicators and increase their reporting capacities to be able to access concessional financing from thematic and green debt markets at scale in ways compatible with national climate and nature-related commitments. Borrowers that fully achieve three predetermined key performance indicator targets — focused on scale and impact — will receive a grant in the amount of 5% of the IDB loan principal (IDB 2023).

SUPPORT

The IDB now sees the need to build more case studies. Another important step will be the engagement with counterparts, increasing clarity on how to align operations with the Paris Agreement. Different levels of sophistication of financial intermediaries in the region will require technical assistance, with the establishment of different tiers and reasonable timelines to reflect specific national and institutional contexts, as well as improved benchmarks that provide more certainty and systematicity.

Operational benchmarks used by IDB

Project emissions tracking,²⁸ inclusion lists, exclusion lists,²⁹ scenario modeling, consistency with national development pathways, transition risk assessments, and physical risk assessments.

²⁷ An example of a recent relevant publication is Heat and High Water: Nine Pathways to Climate Resilient Development (<http://dx.doi.org/10.18235/0005214>).

²⁸ Assessment of consequential emissions is required by IDB for project approval, of projects with operational emissions that are equal or higher than 25,000 ton CO₂e/year. Some estimations to understand impact are done for projects below 25,000 ton CO₂e/year.

²⁹ IDB's exclusion list is part of the Environmental and Social Policy Framework <https://www.iadb.org/en/who-we-are/topics/environmental-and-social-solutions/environmental-and-social-policy-framework>

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